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**UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION**

In re EXTREME NETWORKS, INC.
SECURITIES LITIGATION,

This Document Relates to:

All Actions.

Master File No. 3:15-cv-04883-BLF

CLASS ACTION

**AMENDED CONSOLIDATED CLASS
ACTION COMPLAINT
FOR VIOLATIONS OF THE
FEDERAL SECURITIES LAWS**

Jury Trial Demanded

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1 Lead Plaintiff Arkansas Teacher Retirement System (“Arkansas Teacher” or “Lead
2 Plaintiff”), individually and on behalf of a class of similarly situated persons and entities,
3 alleges the following against Defendants Extreme Networks, Inc. (“Extreme” or the
4 “Company”) and Charles W. Berger, Kenneth B. Arola, and John T. Kurtzweil (collectively, the
5 “Individual Defendants,” described more fully below) (together with Extreme, the
6 “Defendants”), upon personal knowledge as to itself and its own acts, and upon information and
7 belief as to all other matters.

8 Lead Plaintiff’s information and belief as to allegations concerning matters other than
9 itself and its own acts is based upon, among other things, a review and analysis of (i) press
10 releases, news articles, transcripts, and other public statements issued by or concerning Extreme
11 and the Individual Defendants; (ii) research reports issued by financial analysts concerning
12 Extreme’s business; (iii) reports filed publicly by Extreme with the Securities and Exchange
13 Commission (the “SEC”); (iv) an investigation conducted by and through Lead Plaintiff’s
14 attorneys, which included interviews of numerous former employees of Extreme on a
15 confidential basis; (v) news articles, media reports, and other publications concerning the
16 networking technology industry and markets; (vi) other publicly available information and data
17 concerning Extreme, its securities, and the markets therefor; and (vii) information provided by a
18 consulting expert in the planning and implementation of senior executive compensation
19 programs and incentives. Lead Plaintiff believes that substantial additional evidentiary support
20 exists for the allegations herein and will continue to be revealed after Lead Plaintiff has a
21 reasonable opportunity for discovery.

22 **I. NATURE OF THE ACTION**

23 1. Lead Plaintiff brings this federal securities class action on behalf of itself and all
24 persons and entities that, during the period from September 12, 2013 through April 9, 2015
25 inclusive (the “Class Period”), purchased the publicly traded common stock of Extreme and/or
26 exchange-traded options on such common stock, and were damaged thereby (the “Class”).
27 Excluded from the Class are: (i) Defendants; (ii) members of the immediate family of any
28 Defendant who is an individual; (iii) any person who was an officer or director of Extreme

1 during the Class Period; (iv) any firm, trust, corporation, or other entity in which any Defendant
 2 has or had a controlling interest; (v) Extreme’s employee retirement and benefit plan(s); and (vi)
 3 the legal representatives, affiliates, heirs, successors-in-interest, or assigns of any such excluded
 4 person. Lead Plaintiff seeks remedies under the Securities Exchange Act of 1934, 15 U.S.C.
 5 §§ 78a et seq. (the “Exchange Act”).

6 2. Extreme develops and sells network infrastructure equipment. Its main products
 7 include wired and wireless devices for accessing the Internet, as well as relevant software.

8 3. Enterasys Networks, Inc. (“Enterasys”) was a privately held company
 9 headquartered in Salem, New Hampshire, that also sold network infrastructure equipment and
 10 software, including analytics and security products. Enterasys was a direct competitor of
 11 Extreme.

12 4. Extreme announced its acquisition of Enterasys on September 12, 2013 and
 13 completed it on October 31, 2013 for \$180 million, net of cash acquired. The acquisition
 14 roughly doubled the size of the Company, and the Company described it as a “merger of equals.”
 15 On the September 12, 2013 conference call where Extreme announced the acquisition, Defendant
 16 CEO Charles Berger (“Berger”) assured investors that: ***“There will be no disruption in***
 17 ***customers’ ability to grow and operate their networks. Period. None.”***¹

18 5. Defendant CFO John T. Kurtzweil (“Kurtzweil”) similarly stressed that
 19 management had a “***plan***” to “***fully integrate[] the two Teams***” and “***reduce product costs and***
 20 ***operating expenses between \$30 million to \$40 million,***” telling investors they could “expect to
 21 realize these synergies ***over a 12 to 24-month period.***”

22 6. During the Class Period, Extreme’s business model depended primarily on selling
 23 its products and services through other companies called “channel partners.” Indeed, because
 24 Extreme sold its products primarily through partners in these arrangements, the Company
 25 described its business during the Class Period as “partner-driven.” One such partnership was
 26

27 ¹ All emphasis is added unless otherwise noted. **Bold** emphasis is used for general emphasis;
 28 ***bold and italics*** are used specifically to denote statements alleged to be false and misleading, as
 specified in Section VI, *infra*.

1 with the global technology company Lenovo Group Ltd. (“Lenovo”), which Extreme announced
2 for the first time on July 17, 2013.

3 7. Throughout the Class Period, Defendants repeatedly highlighted the Lenovo
4 relationship to investors as one of the Company’s “key partnerships” as well as a key growth
5 driver of Extreme’s revenues. For example, Berger assured on October 28, 2014 that “***Lenovo [I]***
6 ***certainly by then [June 2015] will have double-digit revenue impact....***” Lenovo was touted as
7 being particularly important due to its expanding server business—for example, Extreme claimed
8 to be Lenovo’s “only networking partner.”

9 8. From the moment the Enterasys acquisition was announced, Extreme
10 management created a growth narrative out of the above factors to encourage investment in the
11 Company. Specifically, Defendants assured investors during the Class Period that the Company
12 would achieve 10% revenue growth and 10% operating (profit) margin as a result of integrating
13 Enterasys successfully, the Lenovo relationship, and only a few other factors. In fact,
14 Defendants repeatedly assured investors that these results would be achieved by June 2015 at the
15 latest. CEO Berger, for example, speaking at Extreme’s earnings call on May 6, 2014
16 (announcing results for the third quarter of fiscal year 2014²), stated:

17 ***I want to again reemphasize our plan and our commitment to attain double***
18 ***digit [10% or higher] revenue growth by the second half of [fiscal year] 2015as***
19 ***we complete the integration, realize the benefits of our key partnerships like***
20 ***Lenovo and Ericsson, and align our efforts between the growth opportunities in***
the wireless and datacenter segments. Over the same period we are committed to
achieve a 10% operating margin on a non-GAAP basis.

21 9. Defendant Berger was unusually incentivized to promote this growth narrative: if
22 he could get Extreme’s stock price to rise to \$4, \$5, and \$6 per share and stay there for only 30
23 days, pursuant to the terms of his employment agreement, Berger would earn options to purchase
24 300,000 shares of Extreme Stock at each level, for only \$3.17 per share. By making false and
25 misleading statements and omissions regarding the Enterasys integration, Berger inflated
26 Extreme’s stock to first \$4, then \$5, and then \$6 per share for 30 consecutive days (on October
27

28 ² The Company’s fiscal year 2015 ended June 30, 2015.

18, 2013, November 6, 2013, and December 16, 2013). At each point, Berger became entitled to purchase 300,000 additional shares of Extreme stock, totaling 900,000 shares. Berger's potential profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share) was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. Based on the current market price for Extreme stock (as of June 2, 2017 market close), Berger's profit would be more than \$6.3 million, or over **twelve times** his 2013 base annual salary.

10. As described in further detail below, Defendants repeated throughout the Class Period that the integration of Enterasys was "***on track***." See also Appendix A (chart of alleged false and misleading statements and omissions). Defendants also repeated that cost savings (or "synergies") from the integration, in combination with benefits from the Lenovo partnership, would drive double-digit revenue growth and a 10% operating margin.

11. Their baseless assurances continued during the Class Period even as the Company lowered its revenue guidance and reported quarterly revenue results below both guidance and analyst expectations. Defendants touted that the Company's integration efforts were "***on track***," "***ahead of plan***," "***exactly where [they] planned to be***," and similar assurances. For example, on May 6, 2014, Extreme reported disappointing financial results, for the quarter in which management had told investors to expect to see the first positive impact of the integration on the Company's financials. Nevertheless, Berger reassured investors that "***[t]he integration efforts following the acquisition of Enterasys continue ahead of plan***."

12. Defendants also continually represented that the Company was "***on track***" to realize \$30 to \$40 million in synergies from the integration. For example, on October 15, 2014, the Company preannounced that it would be falling below its revenue guidance while CEO Berger reassured investors in a Company press release that "***[w]e are on track to realize the full \$30-\$40 million in cost synergies expected from the acquisition***."

13. Defendants' statements regarding the "on track" and "ahead of plan" status of the Enterasys integration and achievement of cost-saving synergies as "on track" all entailed and created the false impression that a plan existed. These statements were all false and misleading because the integration was not going according to any plan. Based on information from

multiple Confidential Witnesses (“CWs”) who worked at the Company during the Class Period, the integration was a failure because the Company did not have an integration plan, including (1) a plan setting forth how the two salesforces would be integrated, (2) a plan outlining other steps to cut costs and obtain synergies from the integration, (3) a “product roadmap”³ stating how the companies’ separate products would be integrated, and (4) a “go-to-market strategy”⁴ as to how the combined entity would reach customers and provide competitive products.

14. Indeed, after the Class Period (on September 14, 2016), Ed Meyercord (“Meyercord”), who was Chairman of Extreme’s Board of Directors during the entire Class Period⁵ and replaced Berger as CEO less than two weeks after the Class Period, admitted that “[t]here were **a lot of integration issues**” in the Enterasys acquisition, promising that a subsequent integration of another recently acquired business would be “[v]ery different” because unlike with Enterasys, “a lot of work has gone into **planning**” it, and this time, the Company developed “**very extensive and detailed bottoms-up plans**,” including specifically “**integration planning**,” such as a “**very clean and clear product and technology roadmap**.”

15. As a result of this lack of an integration plan during the Class Period, Extreme experienced substantial integration problems including: lost clients, client dissatisfaction with a

³ A “product roadmap” is “a record of **planned** releases and may extend two to four release cycles into the future,” and it includes “specific products, product capabilities, or themes phased over a period of time.” “The roadmap projects into the future and suggests the likelihood that additional products and/or services will be developed to continue to address identified market needs.” Further, where products like Extreme’s are “sold business-to-business, an external version of the roadmap may be **required** for customers,” because customers “expect to see **long-term product plans . . . to be sure that the organization will continue to invest in the products**.” Indeed, “product roadmaps are often used as a means to measure the pace of investment” and “as a planning tool for the customer’s budgeting and operational processes so that major expenditures can be planned for the future.” GREG GERACIE, *THE PRODUCT MANAGEMENT AND MARKETING BODY OF KNOWLEDGE* §§ 11.2.2 & 17.1.3 (Steven Eppinger ed., 1st ed. 2013); *see also id.* (“**A product roadmap is common** for products that can be delivered incrementally or in an evolutionary fashion,” as Extreme’s network switching products are delivered).

⁴ A “go-to-market strategy” (or GTM strategy) is an action plan that specifies how a company will reach customers and achieve competitive advantage. The purpose of a GTM strategy is to provide a blueprint for delivering a product or service to the end customer, taking into account such factors as pricing and distribution. *See* <http://searchitchannel.techtarget.com/definition/go-to-market-strategy-GTM-strategy>.

⁵ Meyercord had been on Extreme’s Board of Directors since October 2009, serving as Chairman since March 2011.

1 poorly integrated salesforce and the lack of a product roadmap, a failure to correct employee
2 redundancies and thus achieve related cost-saving synergies, and high executive turnover. In
3 reality, Defendants lacked a reasonable basis to expect to achieve the \$30 to \$40 million of
4 integration synergies in the time frame promised given these undisclosed, adverse facts, and
5 indeed, never did. From the beginning of the Class Period, Defendants knew or recklessly
6 disregarded these omitted, material facts.

7 16. Further, Defendants made false and misleading statements regarding Extreme's
8 relationship with Lenovo. For example, Defendants touted that the Company's "key
9 partnership" with Lenovo "*certainly ... will have double-digit revenue impact*" by June 2015.
10 However, Extreme would later reveal that it did not actually know whether there was any
11 "collaboration in the field" and in fact had "**zero visibility**" into Lenovo's operations, much less
12 any basis to forecast Lenovo's ability to contribute to Extreme's overall revenue. CWs who
13 worked at the Company during the Class Period confirm that there was no support for the
14 partnership at Lenovo's "field" level, or even a way for the Lenovo salesforce to benefit from
15 selling Extreme's products (and thus no incentive to sell Extreme's products, rendering this
16 partnership futile for Extreme). As a result, because of these material, adverse facts that
17 Defendants knew but failed to disclose during the Class Period, they had no reasonable basis for
18 believing during the Class Period that its partnership with Lenovo would positively impact
19 Extreme's revenue, and in particular had no reasonable basis for making a commitment that it
20 would drive double-digit revenue growth by June of 2015.

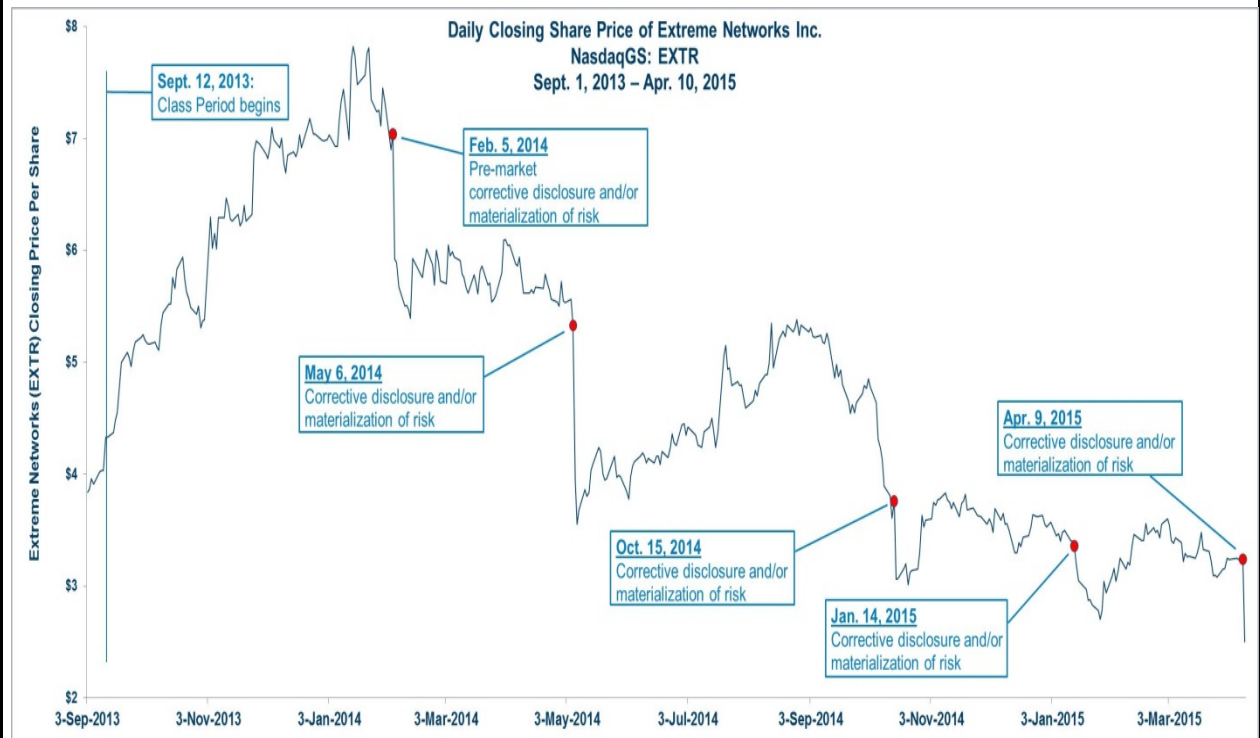
21 17. Nevertheless, Defendants emphasized the Company's "**commitment**" to achieve
22 10% revenue growth and 10% operating margin by the end of its fiscal year 2015 (*i.e.*, by June
23 2015) during the Class Period, even in the face of revenue shortfalls and other revelations
24 described herein. Defendants also stated during the Class Period that Extreme's commitment
25 "has only strengthened." However, Defendants lacked a reasonable basis for this "commitment"
26 to achieve 10% revenue growth and 10% profit margin by June 2015 because they knew but
27 omitted material, adverse facts regarding the failing Enterasys integration and the unproductive
28

1 Lenovo partnership that undermined such statements. In fact, they ultimately failed to fulfil this
2 “commitment” to investors.

3 18. Accordingly, during the Class Period, Defendants knowingly or recklessly made
4 materially false and misleading statements and omissions regarding the Company’s quarterly and
5 year-end revenue and earnings guidance.

6 19. As a result of these misrepresentations and omissions, Extreme’s stock traded at
7 artificially inflated prices during the Class Period, reaching a high of \$8.14 per share in intraday
8 trading on January 23, 2014.

9 20. The inflation caused by the fraud came out of the Company’s stock price through
10 four partial corrective disclosures and/or materializations of the risk before a final one on April
11 9, 2015, as shown in the chart below.



24 21. On February 5, 2014, before the market opened, Extreme reported low revenues
25 and disappointing guidance for the next quarter, citing issues relating to the integration. On May
26 6, 2014, Extreme reported disappointing revenues, admitted that it “experienced **some**
27 integration issues,” and revealed that its CFO and COO would be leaving (and Berger would be
28 taking over the COO’s role and directly overseeing the salesforce integration efforts). On

1 October 15, 2014, Extreme preannounced revenues significantly below its previous guidance.
2 And on January 14, 2015, the Company backed away from its commitment to achieve 10%
3 revenue growth and 10% operating margin by June 2015 (based on the Lenovo partnership).

4 22. Finally, on April 9, 2015, after the markets closed, Extreme preannounced that it
5 would miss guidance for its third fiscal quarter of 2015, reporting non-GAAP revenue of \$118-
6 \$120 million and earnings per share (“EPS”) of (\$0.09)-(\$0.07), significantly below its guidance
7 of \$130-\$140 million and (\$0.03)-\$0.02, respectively. The Company also announced more
8 executive turnover – Chief Revenue Officer Jeff White, who had been hired only six months
9 earlier to manage the integration of the Extreme and Enterasys salesforces (taking over from
10 CEO Berger, who had filled that role from May to October 2014), was “no longer with the
11 Company” – and trading in its shares was halted. On these disclosures, the Company’s stock
12 price fell nearly 23%, from \$3.24 per share to \$2.50 per share, on highly unusual trading volume
13 of 10.1 million shares traded (versus 356,300 shares traded the day before).

14 23. Less than two weeks after the end of the Class Period, on April 21, 2015, the
15 Company announced that Berger had resigned, effective April 19, and would be replaced by
16 Meyercord.

17 24. On May 6, 2015, the Company announced its financial results for the third fiscal
18 quarter of 2015, and Meyercord hosted his first earnings call as CEO. During the call,
19 Meyercord was asked to explain how an acquisition that created a Company with combined
20 annual revenues of \$624 million was reporting only \$535 million annual revenue a year and a
21 half later. Meyercord admitted, among other things, that the integration of Enterasys and its
22 salesforce had not been successful, and indeed, the acquisition “wasn’t a very good deal” to
23 begin with. He further admitted that **Extreme had “zero visibility into Lenovo”** and was
24 “uncomfortable” providing any forecast for when, if ever, that relationship would contribute to
25 Extreme’s revenue. These revelations show that the previous revenue shortfalls, guidance
26 misses, and executive turnovers were materializations of undisclosed risks relating to the failed
27 Enterasys integration and the weakness of the so-called Lenovo partnership.

25. Extreme never achieved the promised 10% operating margin or double-digit revenue growth, either by the scheduled second half of fiscal year 2015 or thereafter. Extreme's stock price returned to pre-fraud levels at the end of the Class Period.

II. JURISDICTION AND VENUE

26. The claims asserted herein arise under Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the "Exchange Act"), 15 U.S.C. §§ 78j(b) and 78t(a), and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. § 240.10b-5.

27. This Court has jurisdiction over the subject matter of this action pursuant to Section 27 of the Exchange Act, 15 U.S.C. § 78aa, and 28 U.S.C. §§ 1331 and 1337(a).

28. Venue is proper in this judicial district pursuant to Section 27 of the Exchange Act and 28 U.S.C. § 1391(b). Many of the acts and omissions charged herein, including the dissemination of materially false and misleading information to the investing public, and the omission of material information, occurred in this district. Extreme has operations in this district and division, including its principal place of business at 145 Rio Robles, San Jose, California 95134.

29. In connection with the acts alleged in this Complaint, Defendants, directly or indirectly, used the means and instrumentalities of interstate commerce, including, but not limited to, the mails, interstate telephone communications, and the facilities of the NASDAQ Stock Market ("NASDAQ"), the world's second-largest stock exchange by market capitalization.

III. PARTIES

A. Lead Plaintiff

30. On June 28, 2016, this Court appointed Arkansas Teacher to serve as the Lead Plaintiff in this action pursuant to the Private Securities Litigation Reform Act of 1995 (the "PSLRA") (ECF No. 75).

31. Arkansas Teacher is a cost-sharing, multiple-employer defined benefit pension plan that provides retirement benefits to public school and other public education-related employees in the State of Arkansas. Arkansas Teacher was established by Act 266 of 1937, as

1 an Office of Arkansas State government, for the purpose of providing retirement benefits for
 2 employees of any school or other educational agency participating in the system. Arkansas
 3 Teacher has more than \$15 billion in net assets held in trust for pension benefits. As of June 30,
 4 2015, Arkansas Teacher has 335 participating employers and more than 126,000 individual
 5 members. As set forth in its PSLRA certification previously filed with the Court (ECF No. 88-
 6 1), Arkansas Teacher purchased Extreme common stock during the Class Period and suffered
 7 damages as a result of the securities law violations alleged herein.

8 **B. Defendants**

9 32. Defendant Extreme is a Delaware corporation with principal executive offices at
 10 145 Rio Robles, San Jose, CA 95134. Founded in 1996, Extreme first incorporated in California
 11 in May 1996 and shipped its first products in 1997. The Company reincorporated in Delaware in
 12 March 1999 and had its initial public offering (“IPO”) in April 1999. As of June 30, 2016,
 13 Extreme had approximately 1,378 employees worldwide. Throughout the Class Period, Extreme
 14 common stock traded actively on the NASDAQ under the ticker symbol “EXTR.” During the
 15 Class Period, there were approximately 94 million to 100 million shares of Extreme common
 16 stock outstanding.

17 33. Extreme’s fiscal year ends on June 30 of each year. Thus, for example, its 2015
 18 Fiscal Year ended on June 30, 2015, and its 2015 fiscal quarters Q1, Q2, Q3, and Q4 ended on
 19 September 30, 2014, December 31, 2014, March 31, 2015, and June 30, 2015 respectively.

20 34. Defendant Charles W. Berger was at all relevant times Extreme’s President and
 21 Chief Executive Officer (“CEO”). Berger was Extreme’s CEO and a member of Extreme’s
 22 Board of Directors from April 2013 until April 19, 2015, when his employment with Extreme
 23 was terminated. Prior to joining Extreme, Berger was the Chairman and CEO of ParAccel, Inc.,
 24 a software company that provided a database management system designed for advanced
 25 analytics for business intelligence. From April 2006 through December 2009, Berger served as
 26 CEO of DVDPlay, Inc., a developer and manufacturer of automated and remotely managed DVD
 27 rental kiosks, for which he also served as Chairman from December 2001 through December
 28 2009. From March 2003 through September 2005, he served as President, CEO, and as a

1 director of Nuance Communications, Inc., a computer software technology company that
 2 provides speech and imaging applications. Berger was a direct and substantial participant in the
 3 fraud. During the Class Period, as more fully alleged below, he made materially false and
 4 misleading statements/omissions in Extreme's press releases, quarterly conference calls, industry
 5 events, and events for analysts, investors, and the media.

6 35. Defendant John T. Kurtzweil was Extreme's Chief Financial Officer ("CFO") and
 7 Senior Vice President from June 29, 2012 to June 1, 2014. Kurtzweil then served as "Special
 8 Assistant to the CEO," from June 2, 2014 until September 30, 2014, when his employment with
 9 Extreme ended. Prior to Extreme, from 2006 to 2012, Kurtzweil was the Executive Vice
 10 President of Finance, CFO, and Treasurer of Cree, Inc., a manufacturer of lighting-class LEDs,
 11 lighting products and products for power and radio frequency applications. Kurtzweil was a
 12 direct and substantial participant in the fraud. During the Class Period, as more fully alleged
 13 below, he made materially false and misleading statements/omissions in press releases, quarterly
 14 conference calls, industry events, and events for analysts, investors, and the media.

15 36. Defendant Kenneth B. Arola ("Arola") was Extreme's CFO and Senior Vice
 16 President from June 2, 2014 to May 2016. Prior to joining Extreme, from 2005 to 2013, Arola
 17 was the Vice President of Finance and CFO of Align Technology, Inc., a medical device
 18 company. From 1990 to 2004, he was the Vice President of Finance and Corporate Controller at
 19 Adaptec, Inc., a manufacturer of computer storage products. Arola was a direct and substantial
 20 participant in the fraud. During the Class Period, as more fully alleged below, he made
 21 materially false and misleading statements/omissions in Extreme's press releases, quarterly
 22 conference calls, industry events, and events for analysts, investors, and the media.

23 37. For purposes of this Complaint, "Individual Defendants" refers to Defendants
 24 Berger, Kurtzweil, and Arola. The Individual Defendants, together with Extreme, are the
 25 "Defendants."

26 **IV. CONTROL PERSON ALLEGATIONS**

27 38. The Individual Defendants, by virtue of their high-level positions at Extreme,
 28 directly participated in the management of the Company, were directly involved in the day-to-

1 day operations of the Company at the highest levels, and were privy to confidential proprietary
2 information concerning the Company and its business, operations, growth, financial statements,
3 and financial condition, as alleged herein. As set forth below, the materially misstated
4 information conveyed to the public was the result of the collective actions of these individuals.

5 39. Berger was very closely involved in all aspects of the Company's operations. For
6 example, he took over direct responsibility for the Sales group, including overseeing the
7 integration of the Enterasys and Extreme salesforces, when COO Chris Crowell left the
8 Company on May 6, 2014. Berger continued in that capacity until he was replaced by Jeff White
9 on October 1, 2014. *See, e.g., infra* ¶¶ 135-138, 141, 405-409. As further described below, both
10 before and after this period, Berger spoke personally with employees regarding failures of the
11 integration process, particularly the lack of an integration plan and related salesforce integration
12 problems (*see, e.g., infra* ¶¶ 122, 126, 410), including at quarterly sales calls (which he led while
13 acting as **head of Sales** from May to October 2014) and the annual global salesforce conference
14 in Las Vegas in the summer of 2014.

15 40. The Individual Defendants, as senior executive officers, and Berger additionally
16 as a director, of a publicly held company whose common stock was, and is, registered with the
17 SEC pursuant to the Exchange Act, and whose common stock was, and is, traded on the
18 NASDAQ, and governed by the federal securities laws, each had a duty to disseminate prompt,
19 accurate, and truthful information with respect to the Company's business, operations, financial
20 statements, and internal controls, and to correct any previously issued statements that had
21 become materially misleading or untrue, so that the market prices of Extreme's publicly-traded
22 common stock would be based on accurate information. Berger, Kurtzweil, and Arola each
23 violated these requirements and obligations during the Class Period.

24 41. The Individual Defendants, because of their positions of control and authority as
25 senior executive officers of Extreme, and Berger as an Extreme director, were able to and did
26 control the content of the SEC filings, press releases, and other public statements issued by
27 Extreme during the Class Period. Each was provided with copies of the statements made in
28 statements at issue in this action before they were issued to the public and had the ability to

1 prevent their issuance or cause them to be corrected. Accordingly, Defendants Berger,
 2 Kurtzweil, and Arola are responsible for the accuracy of the public statements detailed herein.

3 42. The Individual Defendants, because of their positions of control and authority as
 4 senior executive officers of Extreme, and Berger as an Extreme director, had access to the
 5 adverse undisclosed information about Extreme's business, operations, financial statements, and
 6 internal controls through access to internal corporate documents, conversations with other
 7 corporate officers and employees, attendance at Extreme management and Board of Directors
 8 meetings and committees thereof, and via reports and other information provided to them in
 9 connection therewith, and knew or recklessly disregarded that these adverse undisclosed facts
 10 rendered the positive representations made by or about Extreme materially false and misleading.

11 43. The Individual Defendants are liable as participants in a fraudulent scheme and
 12 course of conduct that operated as a fraud or deceit on purchasers of Extreme common stock by
 13 disseminating materially false and misleading statements and/or concealing material adverse
 14 facts. The scheme: (i) deceived the investing public regarding Extreme's integration of
 15 Enterasys, partnership with Lenovo, related "commitment" to achieve 10% revenue growth and
 16 operating margin, operations, and management, and the intrinsic value of Extreme's common
 17 stock and options; and (ii) caused Lead Plaintiff and members of the Class to purchase Extreme
 18 common stock and options at artificially inflated prices.

19 **V. SUBSTANTIVE ALLEGATIONS**

20 **A. Extreme's Business Overview⁶**

21 44. Extreme is a network infrastructure company. It develops and sells equipment for
 22 accessing the Internet, as well as software for running the equipment, monitoring its usage, and
 23 analyzing the data that passes through. The Company also offers related services contracts for
 24 extended warranty and maintenance of its equipment. Together, equipment sales and service
 25 contract payments constitute, in the Company's words, "substantially all" of the Company's
 26 revenue.

27 _____
 28 ⁶ This discussion of Extreme's business, products, and customers is limited to the Class Period, unless otherwise noted.

1 45. Extreme occupies part of the modern information technology ecosystem known as
2 “switching” and/or “routing,” *i.e.*, the part of network infrastructure that is upstream of the
3 Internet user’s device but downstream of the data carrier (such as Ethernet, 3G, and 4G services).
4 The Company’s products consist of wired and wireless means of accessing the Internet such as
5 wired switching, wireless switching, and access point devices. The Company also offers
6 software services, including programs that monitor and address Internet performance, as well as
7 programs that capture and analyze or “mine” Internet usage data. In addition, the Company sells
8 what it refers to as “renewable support arrangements,” which include extended warranty
9 contracts that generally range from one to five years.

10 46. These products and services together accounted for over \$500 million in global
11 revenues per fiscal year during the Class Period. Extreme’s main competitors during the Class
12 Period included Cisco Systems, Inc., Brocade Communications Systems, Inc., Juniper Networks
13 Inc., and Hewlett-Packard.

14 47. Extreme’s domestic and international customers include businesses such as
15 hospitals, hotels, universities, sports venues, and telecommunications companies, as well as
16 government agencies. For example, its customers during the class period included Ericsson AB,
17 U.S. school districts, the University of Southern California, and the National Football League.

18 48. Throughout the Class Period, Extreme’s primary business model was to sell its
19 products and services through other companies called “channel partners.” A channel partner is
20 another company in the same technology ecosystem that supplements its own goods and services
21 with Extreme products. Typically, companies partnered with Extreme so they could offer their
22 own customers more complete information technology solutions. Because Extreme sold its
23 products primarily through partners in these arrangements, Extreme described its business during
24 the Class Period as “partner-driven.”

25 49. The Company also generated revenue through the efforts of its internal
26 salesforce, also referred to as its “field sales organization.” This salesforce both provided
27 support to channel partners and made direct sales to Extreme’s own customers. According to
28 the Company, “about 65% to 70%” of its revenue during the Class Period was earned through

1 its partners, and “about 25% to 30%” of its revenue was from direct sales by the Company
2 itself.

3 **B. Start of Class Period: Extreme Acquired Enterasys, Emphasizing the**
4 **Integration and the Synergies to Be Obtained**

5 50. On September 12, 2013, Extreme issued a press release, before the market
6 opened, announcing that it had acquired rival network infrastructure technology company
7 Enterasys. The release disclosed that Extreme would acquire all Enterasys outstanding stock in
8 an all cash transaction valued at \$180 million.

9 51. The acquisition roughly doubled the size of the Company. At the time the
10 acquisition was announced on September 12, 2013, Extreme had approximately 750 employees
11 and reported “just shy of \$300 million in annual revenues.” Enterasys had approximately 900
12 employees and announced it would “achieve between \$325 million and \$330 million” in annual
13 revenues for its fiscal year about to end on September 30. As such, Extreme stated it “will have
14 trailing 12-months revenues in excess of \$600 million.” Further, Extreme had more than 6,000
15 customers before the acquisition, and management announced at the September 12, 2013
16 conference call that “[t]he combined Company will have over 12,000 customers.” Accordingly,
17 the Company described the acquisition as a “merger of equals.”

18 52. On the September 12, 2013 conference call, where Extreme announced the
19 acquisition, Defendant Kurtzweil stated that “when we have fully integrated the two Teams, we
20 *plan to reduce product costs and operating expenses between \$30 million to \$40 million,*”
21 further specifying that “[w]e expect to realize these synergies *over a 12 to 24-month period.*”
22 Later on the same call, Defendant Berger assured investors that: “*There will be no disruption in*
23 *customers’ ability to grow and operate their networks. Period. None.*”

24 53. The Company completed the acquisition on October 31, 2013 and announced that
25 it made “Extreme the fifth largest Ethernet switching company in the market.” Shortly
26 thereafter, on November 4, 2013, Berger assured the market: “*Overall, our integration efforts*
27 *are on track.*” Kurtzweil reiterated both that the Company had a “*plan* to reduce product costs
28 and operating expenses *between \$30 million to \$40 million . . . over a 12- to 24-month period,*”

1 and that these “*synergies will be seen in the financials*” in a small way in the third fiscal quarter
 2 and *will hit full stride in 12 to 15 months from now.*”

3 **C. Throughout the Class Period, Defendants Repeatedly Assured the Market**
 4 **that Extreme’s Integration of Enterasys Was “On Track” and “Ahead of**
 5 **Plan”**

6 **1. January 13, 2014 – Company Releases Combined Pro Forma**
 7 **Financials**

8 54. On January 13, 2014, after the acquisition was completed and the Company had
 9 spent over two months on integration, it released a set of consolidated financial statements.
 10 These statements showed, among other metrics, a look at the combined Company’s pro forma
 11 financial statements as if it were operating as one company for the entirety of fiscal year 2013.
 12 The pro forma GAAP revenue for the combined year would have been \$632 million.

13 55. After a January 14, 2014 conference call to discuss these financial statements, the
 14 market reacted positively. An analyst report released the same day from Wedbush Securities
 15 maintained its “Outperform” rating and increased its price target, stating “the company is looking
 16 to extract \$30-40mn in synergies from the combined company over the next 24 months. We
 17 expect early returns to be generated The **key takeaway** is that there are **no major changes**
 18 **to original assumptions.**”

19 **2. February 5, 2014 – Q2 2014 Results**

20 56. Less than a month later, on February 5, 2014, the Company reported its financial
 21 results for its second fiscal quarter of 2014, as well as guidance for the next fiscal quarter (Q3
 22 2014). On the earnings conference call that day, the Company acknowledged it was “at the low
 23 end of the revenue guidance” for the quarter, and that its Q3 2014 guidance was also “at the low
 24 end,” albeit “similar” to its Q3 2013. The Company further acknowledged that it had as yet “not
 25 seen significant evidence of revenue to synergies” and that it experienced “**some** self imposed”
 26 integration issues “most pronounced in our North American organization.” Due to this initial
 27 partial corrective disclosure and/or materialization of risk, at the close of trading on February 5,
 28 2014, Extreme’s stock price dropped approximately 16%, as detailed *infra* at ¶¶ 202-203, 424.

1 On the same day, however, Defendants falsely reassured investors that “[o]ur *integration plans*
2 *are on track.*”

3 **3. May 6, 2014 – Q3 2014 Results**

4 57. On May 6, 2014, after the markets closed, the Company reported financial results
5 for its next quarter: the third fiscal quarter of 2014. This was the first full quarter after the
6 acquisition, and the quarter in which management had told investors to expect to see the first
7 positive impact of the integration on the Company’s financials. See ¶¶ 52-53, *supra*. However,
8 the Company reported results at the low end of its previous guidance, and management revealed
9 that they “have experienced **some** integration issues” “particularly in North America.” As a
10 result of this partial corrective disclosure and/or materialization of the risk, Extreme’s stock price
11 fell more than 25% by the close of trading the next day, May 7, 2014, as detailed *infra* at ¶¶ 224-
12 226, 425. Despite these integration issues and the disappointing financial news, management
13 assured investors that the integration was “*ahead of plan*,” that “our target for synergy savings
14 as a result of the acquisition of Enterasys continues” unchanged; and that overall the Company
15 would deliver the positive revenue impacts that Defendants had been promising. Specifically, in
16 the press release Berger stated, “[t]he *integration efforts following the acquisition of Enterasys*
17 *continue ahead of plan.*” Similarly, during the earnings call on the same date, Berger repeated
18 that “*the integration of the two companies ... is on track.*”

19 **4. July 21, 2014 – Q4 2014 Revised Guidance**

20 58. On July 21, 2014, Extreme issued a press release and announced higher guidance
21 for Q4 2014. In the press release, Berger reiterated that “[o]ur *integration remains ahead of*
22 *plan* as we continue to execute against key Company operational and financial milestones. . . .”

23 **5. August 14, 2014 – Fiscal Year 2014 and Q4 2014 Results**

24 59. On August 14, 2014, the Company reported financial results for its fourth fiscal
25 quarter and fiscal year 2014, as well as guidance for the next fiscal quarter (Q1 2015). In a press
26 release, Berger was quoted as saying: “*Our sales force integration is complete*, with all
27 territories rationalized, and the team is aligned and executing, which is evident in this quarter’s
28 results.”

1 60. In the earnings call later that day, Arola reiterated that “*the two companies are*
 2 *now fully integrated.*” Berger further discussed “signs that the integration issues *are behind us*”
 3 and told investors “*we are exactly where we planned to be in [the] integration process.*” Berger
 4 also represented that “[w]e completed major elements of the integration of Enterasys and *are on*
 5 *track to realize the synergies we have committed to.*”

6 **6. October 15, 2014 – Prerelease of Q1 2015 Results**

7 61. Two months later, on October 15, 2014, after the markets closed, the Company
 8 preannounced in a press release that its earnings for the first quarter of fiscal year 2015 would
 9 fall short of previous guidance. In contrast to Defendants’ August 14, 2014 representations that
 10 “the two companies are now fully integrated” and that the sales force integration was
 11 “complete,” Berger now admitted that even after the intervening two months, the integration was
 12 only “**nearly** completed.” Due to this partial corrective disclosure and/or materialization of the
 13 risk, by the end of the day on October 16, 2014, Extreme’s stock price fell by approximately
 14 18%, as detailed *infra* at ¶¶ 272-273, 426. Nevertheless, in the press release, Berger reassured
 15 investors that the Company remained “*on track to realize the full \$30-\$40 million in cost*
 16 *synergies expected from the acquisition.*”

17 **7. October 28, 2014 – Q1 2015 Results**

18 62. Two weeks later, on October 28, 2014, the Company released full financial results
 19 for the same fiscal quarter, as well as guidance for the next fiscal quarter (Q2 2015). On a
 20 conference call, Defendants attributed the Company’s below-expected results to “significant”
 21 “disruptions” caused by the acquisition and integration of Enterasys, which Defendants
 22 previously assured investors would not happen. In a press release, Berger specified that some
 23 integration efforts “had an impact on our revenues during the quarter as our partners and sales
 24 people had to learn a new way to do business with us” – in direct contradiction with Berger’s
 25 statement on August 14, 2014 that “*integration issues are behind us*” and Arola’s assurance that
 26 the companies were “*fully integrated.*” However, Berger again reassured investors in the press
 27 release that “[w]e are *on track* to realize the full \$30 to \$40 million in cost synergies expected
 28

1 from the acquisition.” Arola added: “***We continue to [be on] track*** to realize the full \$30 million
2 to \$40 million of synergies expected from the Enterasys acquisition.”

3 **8. December 17, 2014 – Bernstein Technology Innovation Summit**

4 63. On December 17, 2014 at the Bernstein Technology Innovation Summit, Arola
5 continued describing the Company’s achievement of cost-saving synergies as “***on track***,” further
6 assuring investors that, *inter alia*, the “***sales organizations have been integrated***” and the
7 “***integration of sales is completed***.”

8 **9. January 28, 2015 – Q2 2015 Results**

9 64. On January 28, 2015, the Company reported financial results for its second fiscal
10 quarter of 2015 and announced guidance for the next fiscal quarter (Q3 2015). In an earnings
11 call, Berger disclosed that “while **we are making daily substantial progress on the complete**
12 **integration and upgrading of our salesforce**, it is clear that we still have considerable work to
13 do going forward.” He thus admitted that, contrary to Berger’s and Arola’s prior statements on
14 August 14, 2014 and December 17, 2014 that the salesforce integration had been “complete”
15 then, it **still** was not complete at this time. But he continued to reassure investors: “I absolutely
16 do not believe the acquisition and subsequent integration of Enterasys has, to use your words,
17 failed miserably. . . ***we’re right on track with where we expected to be from a synergy basis***.”
18 The market was reassured by this and Berger’s other false and misleading statements on this
19 date, with Extreme’s stock price increasing by 9% after this call (*see infra* at ¶¶301-302).

20 65. Thus, throughout the Class Period, Defendants repeatedly assured the market that
21 Extreme’s integration of Enterasys and promised cost-saving “synergies” were “on track,”
22 thereby continually misleading investors. As explained below, these representations were part of
23 Defendants’ “commitment” to investors to achieve double-digit revenue growth and 10% profit
24 margin by a specific time—June 2015. *See* Section V.E., *infra*.

25 **D. Defendants Repeatedly Touted Extreme’s Partnership with Lenovo**

26 **1. Inception of the Lenovo Partnership**

27 66. As noted above, Extreme earned the majority of its revenue from products and
28 services sold through “channel partners,” *i.e.*, other companies in the same technology ecosystem

1 that supplement their own goods and services with Extreme offerings. One such partnership was
2 with the global technology company Lenovo, which Extreme announced on July 17, 2013.

3 Defendants repeatedly highlighted the Lenovo relationship to investors as one of the Company's
4 "key partnerships" as well as an important growth driver. In reality, it was neither.

5 67. On a November 4, 2013 earnings call to discuss financial results for Q1 2014 and
6 guidance for Q2 2014, Berger informed the market that "Lenovo plans a fairly significant launch
7 of their [server] business in North America coming into the middle of this month, November,
8 with a major launch in the Asia Pacific region coming in the first calendar quarter. So I suspect
9 we won't see a lot of business from them in the December quarter, but we should see a pick up
10 coming into the March quarter." A Wedbush Securities analyst report the following day echoed
11 the financial impact of Berger's announcement: "Lenovo is expected to formally launch its
12 server products in November in the US and late March in APAC [Asia Pacific]. While it will
13 take time to build, expect initial revenues in 1H14" for Extreme. The report maintained its
14 positive "outperform" rating in part based on the "newly announced partnerships [including
15 Lenovo] which should drive revenue upside late in FY14."

16 68. On January 23, 2014, Lenovo announced that it would be greatly expanding its
17 server business by acquiring IBM's "x86" server business for approximately \$2.3 billion.
18 Extreme soon began to publicize its relationship with Lenovo as being even more important for
19 Extreme's growth strategy.

20 **2. February 5, 2014 – Q2 2014 Results**

21 69. On a February 5, 2014 earnings call to discuss financial results for Q2 2014 and
22 guidance for Q3 2014, Berger described Lenovo's IBM deal as "tak[ing] them [Lenovo] from a
23 2% global market share player to a 14% global market share player." On the same call, Berger
24 claimed that Extreme was Lenovo's "only networking partner" and touted that Extreme "will be
25 now included in a price list shared by 1200 more sales people they are getting as part of the
26 acquisition." When an analyst asked Berger to describe the Company's partnerships responsible
27 for over 10% of its total revenue, he responded: "The two large ones are really Ericsson and
28 Lenovo going forward."

1 **3. August 14, 2014 – Fiscal Year 2014 and Q4 2014 Results**

2 70. On the Company’s August 14, 2014 earnings call to discuss financial results for
3 its fourth fiscal quarter and fiscal year 2014, and to announce guidance for Q1 2015, Berger
4 again touted the “key partnership” with Lenovo, stating that it would “generate significant
5 revenues” for the company “starting in our fourth quarter of 2015 and beyond.” Berger stated
6 that he “met with the Lenovo executive team in China and it is clear they are strongly committed
7 to the alliance,” falsely assuring that Extreme “also *trained all Lenovo North American reps on*
8 *Extreme products.*”

9 **4. October 15, 2014 – Prerelease of Q1 2015 Results**

10 71. On October 15, 2014, Extreme issued a press release preannouncing results for its
11 first fiscal quarter of 2015 below its previous guidance. On the call, Berger reported that
12 Lenovo “closed the acquisition of the IBM X86 server business” during the quarter, which would
13 “position us well for the remainder of our fiscal year.”

14 **5. October 28, 2014 – Q1 2015 Results**

15 72. On the October 28, 2014 earnings call to discuss the Company’s disappointing
16 financial results for its first fiscal quarter of 2015, as well as guidance for Q2 2015, Berger
17 assured investors of management’s “confidence in our ability to improve our top line
18 performance” due in part to “advancing Lenovo relationships.” When an analyst asked Berger
19 about his previous commitments to achieve double-digit revenue growth by the end of June
20 2015, detailed below in Section VI.C.2. *infra*, Berger responded that “*Lenovo [] certainly by*
21 *then we believe will have double-digit revenue impact.*”

22 **6. January 28, 2015 – Q2 2015 Results**

23 73. On the Company’s January 28, 2015 earnings call to discuss financial results for
24 its second fiscal quarter of 2015, and to announce guidance for Q3 2015, Berger disclosed that
25 the Company would not be able to keep its promise regarding the Lenovo relationship.
26 Specifically, he revealed that the promised revenue impact in “double-digit[s]” would not be
27 achieved by the promised time of June 2015, and perhaps not for another year, even while
28 continuing to tout the strength of Extreme’s partnership with Lenovo. He stated: “we’re still

1 expecting the kind of results that we have talked about before; we just think they are another 2 to
 2 4 quarters [6-12 months] out.” Berger, however, reassured investors that the “partnership with
 3 Lenovo strengthened during the quarter on many fronts,” with “continued productive discussions
 4 at all levels with Lenovo.” He further assured investors that “we continue to make progress
 5 almost on a daily basis with Lenovo, across the board.” Moreover, Berger falsely stated that “on
 6 the positive side, *we are exactly where we thought we would be* on things like being on the price
 7 list, being in their literature, *having airtime with the legacy Lenovo salesforce.*”

8 74. Thus, throughout the Class Period, Defendants repeatedly assured the market that
 9 Extreme’s partnership with Lenovo would result in increased revenues and profits. As
 10 explained below, these representations were part of a “commitment” from the Company,
 11 reinforced by Defendants’ representations that Lenovo’s impact on revenue was “certain[]” and
 12 in “double-digit[s]” to investors to achieve double-digit revenue growth and 10% profit margin
 13 by a specific time—June 2015. *See* Section V.E., *infra*.

14 **E. Defendants Promoted the Company’s Integration of Enterasys and Lenovo**
 15 **Relationship as Key Aspects of a “Commitment” Announced to Investors: to**
 16 **Achieve Double-Digit Revenue Growth and 10% Profit Margin by June**
2015.

17 **1. Extreme Announced Its “Goal” of 10% Profit Margin by June 2015**

18 75. On November 4, 2013, Extreme issued a press release outlining its first fiscal
 19 quarter 2014 financial results. In this release, the Company unveiled the target of and strategy
 20 behind its financial plan: “The company is targeting a quarterly financial model of operating at a
 21 non-GAAP operating income of 10% +/-, by the end of fiscal [year] 2015. To achieve this goal,
 22 the company intends to focus on completing the integration of the two companies and growing
 23 its revenue with high performing and lower cost products and services.”

24 76. On February 5, 2014, Extreme issued a press release outlining its second fiscal
 25 quarter 2014 financial results. Using identical language, the Company reiterated the same
 26 strategy, “completing the integration of the two companies and growing its revenue,” for
 27 achieving the same target, “operating income of 10% +/-, by the end of fiscal [year] 2015.”
 28

1 **2. Extreme’s “Goal” Changed to a “Commitment” to Achieve Both**
 2 **Double-Digit Revenue Growth and 10% Profit Margin by June 2015**

3 **(a) May 6, 2014 Earnings Call**

4 77. On May 6, 2014, Extreme hosted a conference call with investors to discuss the
 5 Company’s third fiscal quarter 2014 financial results. Defendant Berger referenced and repeated
 6 the same plan to achieve 10% revenue growth and 10% operating margin with increased
 7 certainty to investors: “[m]y belief in our ability to achieve these goals has only strengthened
 8 since our last earnings call.” In particular, he now represented them as a “*commitment*” to
 9 investors, including additional detail about where the “key” Lenovo relationship factored in:

10 I want to again *reemphasize our plan and our commitment to attain double digit*
 11 *revenue growth by the second half of 2015 as we complete the integration,*
 12 realize the benefits of our *key partnerships like Lenovo* and Ericsson, and align
 our efforts between the growth opportunities in the wireless and datacenter
 segments. *Over the same period we are committed to achieve a 10% operating*
margin on a non-GAAP basis.

13 **(b) October 28, 2014 Earnings Call**

14 78. On the October 28, 2014 conference call to discuss the Company’s first fiscal
 15 quarter 2015 financial results, Berger stated: “*We stand by our commitment for 10% year-over-*
 16 *year revenue growth by the fourth fiscal quarter, at a 10% operating margin or better.*” Arola
 17 reiterated Extreme’s commitment: “*I want to remind you that I remain committed to year-over-*
 18 *year revenue growth of 10%, and 10% operating margin in the fourth quarter of 2015.*”

19 **3. Extreme Began to Distance Itself From Its “Commitment”**

20 79. Shortly thereafter, management tempered its confidence and certainty, distancing
 21 itself from its commitment to achieve double digit revenue growth (including specifically based
 22 on the Lenovo partnership) or a 10% operating margin by its fourth fiscal quarter of 2015, *i.e.*,
 23 the end of June 2015.

24 80. Specifically, on January 14, 2015, Extreme made a presentation at the Needham
 25 Growth Conference, touting the success of the integration, its customers, and the quality of its
 26 products and services. In response to a question from an audience member about when to expect
 27 meaningful revenue from Lenovo, Arola stated:
 28

1 I'll start by saying because we are in a quiet period I don't want to comment on a
 2 future forecast. But with that said, we are currently looking at what our second
 3 half looks at right now, **evaluating where we are with things like our Lenovo**
 4 **relationship**. . . . But we are currently evaluating that top line and operating
 5 expenses in bottom line. We are looking at alternatives. If something didn't
 6 materialize and we stayed at levels we are, that we would go out and look at how
 7 we are going to restructure the business in essence to make sure we can drive
 8 bottom line. And we'll provide updates when we come to earnings. **But, again, I**
 9 **don't want to today make a comment about the 10% and the 10%**, but our
 10 long-term view of the business, if you ask me we should be running this business
 11 at a 10% operating margin pretty consistently over time. The question is as **we**
 12 **are evaluating it now**, we will make some comments on our earnings call more
 13 specifically about timing of that.

14 81. Due to this partial corrective disclosure and/or materialization of the risk,
 15 Extreme's stock price declined over a two-week period, as detailed *infra* at ¶¶364-366. In
 16 particular, on January 15, 2015, the first day of trading after the Needham Growth Conference,
 17 Extreme's stock fell over 4.7%, and on January 16, 2015, it fell another 4.7%. This decline in
 18 stock price continued until January 28, 2015. *See id.*

19 82. By January 28, 2015, when the Company released its financial results for the
 20 second fiscal quarter of 2015, Berger retreated from his prior "commitment" entirely, confirming
 21 the prior disclosure on January 14, 2015 that Extreme was backing away from its commitment:

22 In the past, we committed to 10% year-over-year revenue growth, and 10%
 23 operating margin in the fourth fiscal quarter of this year. Our commitment was
 24 based on the expected lift from improved sales execution [from the Enterasys
 25 integration], the return of E-Rate, and improved sales and channel execution, and
 26 from our relationship with Lenovo. . . . **However, it is now clear that it will take**
 27 **longer for them to have enough impact to deliver 10% year-over-year**
 28 **growth.**

83. Defendants failed to fulfil their commitment to investors to achieve double-digit
 revenue growth and 10% profit margin by June of 2015 (or ever). They never achieved the
 combined revenues "in excess of \$600 million," (*see* ¶51 *supra*) much less 10% revenue growth
 on top of that by June of 2015. In fact, by the end of its first fiscal year as a combined company
 (2014), Extreme reported reduced net revenues of only \$520 million. After the next fiscal year
 (2015), it was still only \$553 million.

F. End of Class Period: The Truth Was Fully Revealed as Extreme Disclosed Missed Revenue Estimates and Termination of Jeff White

84. On April 9, 2015, after the close of trading, Extreme issued a press release preannouncing results for its third fiscal quarter of 2015 below its previous estimates. The Company did not hold a conference call that day to discuss the negative preannouncement.

85. In the same press release, the Company disclosed that: “Effective April 6, 2015, Jeff White, who served as our Chief Revenue Officer, is no longer with the Company. We are currently in the process of identifying a successor.” White did not immediately join another company.

86. Due to these final corrective disclosures and/or materialization of the risk, Extreme’s stock collapsed, falling approximately 23% from April 9, 2015 to April 10, 2015, as detailed *infra* at ¶¶428.

87. Analysts drew a direct connection between the missed earnings estimates, the unexplained departure of the Company’s executive in charge of the salesforce integration (White), integration problems, and the Company’s overall financial health. For example, on April 10, 2015, Wunderlich Securities issued an analyst report downgrading its rating from “Buy” to “Hold” and reducing its target price **by more than half**, from \$6.00/share to \$2.80/share. The report clarified that Extreme’s announcements the previous day were the main cause of its downgrade. Regarding the Company’s announced failure to achieve its revenue estimates, the report noted that the failure to meet its own estimates “continued the pattern of missing expectations in alternating quarters with a F3Q15 warning of magnitude comparable to that of F1Q15, except that estimates have come down since then.” Regarding the announced departure of Jeff White, the report noted that he only “had a 6-month stint” and “the CEO will run the department again until a replacement executive is found.” Together, these disclosures caused the analyst report to dramatically revise its valuation of the company downward, which would last “until there are signs that the company can find the recipe for execution.”

88. Similarly, a Buckingham Research Group analyst report on the same day announced that it was lowering its share price target from \$3.50 to \$3.00 “on [the] negative

preannouncement.” Specifically, the report described Extreme’s disclosures regarding its revenue estimates miss and White’s departure as a “**surprise announcement**” that was “**an indicator of greater challenges at the company**” with respect to the integration. In particular, the report understood these disclosures as “[s]ignal[ing] [o]ngoing [c]hallenges” within the Company related to the salesforce integration, contrary to Defendants’ prior representations that the salesforce integration had been completed, given that “the appointment of Mr. White . . . was supposed to be an answer to [these] challenges” and that “Mr. White had only been on board since October 1, 2014.”

89. The Buckingham analyst report also noted that, because of the news, the “timing and magnitude” of any “**contribution from Lenovo as [a] primary top-line catalyst[]**” became “**uncertain,**” concluding: “We advise investors to stay on the sidelines.”

90. Accordingly, this news disclosed to investors that the integration of the two companies was a failure, that the Lenovo relationship could not produce the revenue growth that management had told investors was “certain[],” and that their “commitment” to achieve the 10% revenue growth and 10% operating margin by June 2015 (based substantially on the Lenovo partnership and the Enterasys integration) was impossible and lacking a reasonable basis.

G. Confidential Witnesses Demonstrate that the Enterasys Integration Was Not “On Track” or “Ahead of Plan” Because Extreme Lacked an Integration Plan, Leading to Substantial Integration Problems and Adverse Impact on Sales and Revenues

91. Extreme’s integration of Enterasys was a failure from its inception and through the end of the Class Period. First, Defendants represented that the integration and related achievement of synergies was being conducted according to a plan, and was proceeding “on track” with that plan or “ahead” of it, when in reality there was no integration plan (including, for example, a plan setting forth how the two salesforces would be integrated and other steps to cut costs and obtain synergies as well as an underlying product roadmap by which the Company would integrate the two companies’ separate product lines going forward). Second, Defendants experienced, but did not disclose, substantial integration problems, particularly in integrating the two companies’ salesforces, during the Class Period, which rendered false and misleading their

1 statements that the integration was “on track” and that the salesforce integration was “complete.”
 2 Third, the Company experienced significant executive turnover related to its substantial
 3 integration problems, which further demonstrates that the integration was not “on track” or
 4 “complete” during the Class Period. Finally, Defendants’ assurances about the financial benefits
 5 of the acquisition were false and misleading when made because the statements omitted these
 6 known, material facts regarding major problems with the integration that undermined any
 7 reasonable basis for such statements.

8 **1. Defendants Misled Investors into Believing that the Integration Was**
 9 **Following a Plan**

10 92. Defendants continually represented that their integration of Enterasys was
 11 structured around a plan. For example, as noted above, at the time the acquisition was
 12 announced on September 12, 2013, Kurtzweil stated that the integration would follow a “*plan* to
 13 reduce product costs and operating expenses [synergies] between \$30 million to \$40 million”
 14 over an 12 to 24-month period.

15 93. As the Class Period continued, Defendants reiterated not only that such a plan was
 16 in place, but that it was being followed, such that the integration was proceeding “on track” to
 17 deliver the promised synergies and revenue benefits. For example, they repeatedly assured
 18 investors that “[o]ur *integration plans are on track*,” that the integration was “*ahead of plan*,”
 19 that “*we are exactly where we planned to be in [the] integration process*,” that the Company
 20 continued “*on track* to realize the full \$30-\$40 million in cost synergies expected from the
 21 acquisition,” and similar assurances. Each of these statements explicitly represented or created
 22 the strong impression that the Company was following an integration plan to combine two
 23 disparate yet equal-sized companies and, by virtue of following that plan, into a single,
 24 integrated company defined by specific financial measurements, including \$30-40 million in
 25 reduced costs or synergies, a 10% operating margin, and 10% revenue growth compared to the
 26 individual companies’ combined, pre-acquisition revenues of roughly \$632 million.

27 94. In reality, however, there was no such integration plan, as revealed by multiple
 28 CWs and later admitted by Meyercord, Extreme’s Chairman of the Board throughout the Class

1 Period, and who replaced Berger as CEO less than two weeks after the Class Period.

2 Accordingly, Defendants misled investors by assuring them that the Company was “on track”
3 with or “ahead” of a non-existent integration plan.

4 (a) **Confidential Witnesses Reveal That Extreme Lacked an
5 Integration Plan**

6 (i) **Extreme Lacked a Product Roadmap for the Combined
7 Company**

8 95. Confidential Witness 1 (“CW1”) was employed by Extreme from March 2004
9 until April 2014. CW1 last held the position of Senior Systems Engineer, the technical
10 counterpart to a regional sales manager. During CW1’s employment at Extreme, s/he reported to
11 John Barger, Extreme’s Senior Director of Worldwide Systems Engineering. CW1, who was
12 responsible for Extreme’s sales and technical support for one of its North American sales regions
13 (the Southeast), personally observed the Company’s integration efforts in North America from
14 the beginning of the Class Period. Because CW1 was the technical counterpart to a regional
15 sales manager, s/he worked closely with the salesforce, including attending regular team
16 meetings with sales personnel held by the sales director in CW1’s region with all the sales
17 representatives in that region (attended by a total of 15-20 people). CW1 also participated in the
18 quarterly sales calls held by Extreme’s VP of Sales along with the national salesforce, as well as
19 annual global sales conferences in Las Vegas, which CW1 confirmed Berger also attended.

20 96. CW1 stated that there was no centralized plan to integrate Extreme and Enterasys.
21 Initially after the acquisition, each company had its own distinct products, and each had a
22 separate product roadmap for developing features, hardware, and management systems. From
23 the time the acquisition was announced to CW1’s departure in April of 2014, s/he was never told
24 – by Company management or otherwise – whether the combined Company would be able to
25 provide customers with product features, hardware, or management systems from the legacy
26 Extreme or Enterasys sides.

27 97. Immediately after the acquisition, CW1 observed that there was no plan to
28 combine these separate product roadmaps. According to CW1, the lack of an integration plan
that, *inter alia*, addressed how Extreme would combine the separate product lines and a single

1 product roadmap for the combined Company made the integration confusing to customers.
2 Further, CW1 personally knew that existing customers were not happy because they could not be
3 told which product features, hardware, or management systems would be available after the
4 acquisition. According to CW1, the product roadmap was very important to customers, who
5 liked the particular company's products that they had purchased before the acquisition (which
6 they generally expected to run for 4-7 years) and were concerned about whether those products
7 would be supported long-term after the acquisition. Stated differently, CW1 elaborated that all
8 of Extreme's customers were concerned because Extreme's lack of a combined product roadmap
9 provided them no clarity as to how and when the two companies' different technologies would
10 be combined and what those resultant products would look like. CW1 explained that this was
11 particularly a concern for those products where there was overlap between Extreme and
12 Enterasys (for example, WiFi solutions), where it was especially unclear as to which company's
13 technology would prevail after the products were combined. As a Senior Systems Engineer,
14 CW1 was directly involved in discussions with Southeast region customers regarding their
15 concerns about the lack of a product roadmap for the combined Company. CW1's customers
16 who expressed dissatisfaction to CW1 during this time period due to the lack of a product
17 roadmap included the University of Central Florida (the second-largest university in the nation
18 by student enrollment), the University of West Georgia, and Georgia State University.

19 98. CW1 recalled that such customer concerns about the lack of a combined product
20 roadmap were both company-wide and widely known within the Company, including
21 specifically by Berger, because this was a frequent topic of conversation within Extreme after the
22 acquisition, including at the quarterly sales calls that CW1 attended. CW1 added that
23 "everyone" in the Company knew that the lack of a combined product roadmap was the "biggest
24 challenge" for Extreme after the acquisition. As an example of a specific meeting where this
25 was a focus of the conversation, CW1 recalled attending a meeting in San Francisco after the
26 acquisition, in January or February of 2014, which was held by the VP of Engineering, Dan
27 Dulac, who was a former Enterasys executive, and attended by other senior executives such as
28 the Chief Marketing Officer. CW1 stated that at this meeting there was a lot of discussion about

1 how Extreme would integrate the two companies' separate technologies and products and
2 develop the combined product roadmap, which they were still trying to figure out at that time.
3 According to CW1, it was clear at that meeting that there was "still a lot to be worked out" with
4 respect to the combined product roadmap.

5 99. Confidential Witness 2 ("CW2") was a senior executive of Extreme before,
6 during, and after the Class Period.⁷ CW2 indicated that s/he sat on conference calls with upper
7 management and the Board of Directors and had personal knowledge of how the acquisition of
8 Enterasys was originally conceived. CW2 stated that s/he first became aware of the acquisition
9 idea being seriously discussed when Oscar Rodriguez was CEO, and that Rodriguez opposed the
10 measure. CW2 specified that, in CW2's opinion, the idea was the "brainchild" of Directors Ed
11 Meyercord and Edward Kennedy, who orchestrated bringing in Chuck Berger as the CEO
12 (replacing Rodriguez) to accomplish the acquisition.

13 100. CW2's opinion is that the integration was "problematic right from the get-go."
14 CW2 believed that there was difficulty retaining clients due to uncertainty with the future of the
15 combined Company's product roadmap as follows: "When we came out to refresh the network,
16 they [legacy clients] didn't go with us because we didn't have a story or a product roadmap."
17 One "major client" CW2 recalled losing due to such problems was Abbott Laboratories, and
18 CW2 believed there were "probably more" legacy Enterasys customers that were lost this way as
19 well. CW2 attributed approximately \$90 million in lost revenue to client losses stemming from
20 integration failures.

21 101. Confidential Witness 3 ("CW3") was employed by Extreme from January 2012
22 until June 2015. CW3 last held the position of Territory Sales Manager for New York. During
23 CW3's employment at Extreme, s/he reported to Peter Katavolos, Extreme's Regional Sales
24 Director. CW3 confirmed that the acquisition was favored by Chairman/Director Meyercord.

25
26
27 ⁷ Lead Plaintiff believes that the details of CW2's identity contained herein are sufficient to
28 satisfy the requirements of the PSLRA. Lead Plaintiff can provide additional specificity,
including CW2's exact position title and dates of employment, to the Court through an *in camera*
submission.

1 102. CW3 stated from personal experience at Extreme that there was “**no plan**” for
2 integration. CW3 would have known if there was such an integration plan, including a roadmap
3 as to how to combine the two companies’ products, based on his/her attendance at quarterly sales
4 calls and the annual global sales conference where s/he personally observed sales personnel
5 question Berger and other management regarding such plans, as detailed below. Specifically,
6 CW3 described Extreme and Enterasys as two separate companies with very different product
7 lines, systems, and platforms, which were essentially “**apples to oranges**” and thus
8 incompatible, and that there was “no plan” as to how to combine them. In particular, CW3 stated
9 that Extreme had no product roadmap and no direction from management as to how to integrate
10 the two companies’ products. As a Territory Sales Manager, CW3 was responsible for
11 communicating the product roadmap to customers. CW3 emphasized that s/he was both the
12 “field manager” and the “sales engine,” meaning that there would have been no one to
13 implement any integration plan “without me and my counterparts around the country.” Thus,
14 CW3 would have known whether Extreme had an integration plan, including a product roadmap
15 for the combined Company.

16 103. CW3 also participated in quarterly, company-wide salesforce conference calls
17 (with approximately 150 other attendees), held by the Vice President of Sales and attended by
18 Berger and sometimes the CFO; indeed, Berger led these quarterly calls after Crowell’s
19 departure and before White’s arrival, when Berger was acting head of Sales, from May 2014
20 through October 2014. (CW3 recalled that these sales meetings were convened through
21 company-wide emails, which were sent out by Berger himself during the time period that he was
22 acting head of Sales.) According to CW3, sales personnel raised questions during these quarterly
23 calls directly with Berger about the lack of a product roadmap and the lack of a plan to complete
24 the integration. CW3 recalled that Berger’s responses to these questions were “evasive,” *e.g.*,
25 “**we’re working on it**” or “**we’ll get back to you.**”

26 104. CW3 elaborated that there were discussions about possible ways to integrate the
27 companies’ separate product lines and systems, but “nothing determined” in terms of how to
28 actually do it during the Class Period. According to CW3, the most prominent example of such

discussion was at the Company's annual global sales meeting in Las Vegas in July or August of 2014,⁸ which Berger ran (as Crowell had already departed), and which both CW3 and **then-CFO Arola also attended**. CW3 personally witnessed peer sales personnel question Berger about the lack of a plan to integrate the two companies and their products during this event, when Berger was acting head of Sales. CW3 recalled that Berger responded with "non-answers," *e.g.*, that management was working on the integration and that the plan was – in Berger's words – "**TBD**" or "**to be determined**." CW3 understood Berger's "TBD" message to the assembled salesforce as conveying that Extreme was evaluating its options but still had "no clear strategy how to do it." Thus, CW3 confirmed that, in July or August of 2014, Berger – with upper management present and in front of the global salesforce – described Extreme's integration strategy, including creation of a combined product roadmap and a plan for achieving synergies, as "**TBD**."

105. According to CW3, the fact that the acquisition was a merger-of-equals meant that customers were uncertain whose product lines would prevail, because there was no clear "Goliath." CW3 stated that "all" of the legacy Extreme and Enterasys customers were worried that the products they purchased would not be supported post-acquisition because of the lack of a product roadmap. In CW3's personal experience, approximately 100 of CW3's own New York-area customers expressed such concerns; s/he specifically recalled hearing these concerns from the ASPCA, Logicworks, and community college customers. In particular, CW3 recalled that due to the lack of a product roadmap and this resulting uncertainty about future product lines, numerous customers delayed purchasing products (for example, CW3's customers SUNY Farmingdale and Kingsborough Community College), creating revenue losses. CW3 confirmed the company-wide scope of this problem, explaining that sales personnel from other regions raised the same customer concerns about the uncertain future of the combined product lines at sales meetings. CW3 added that sales personnel "constantly" had such conversations and

⁸ According to Berger's statements on the August 14, 2014 earnings call, this global sales conference, which he publicly confirmed he attended, occurred approximately on July 31, 2014. *See* ¶ 258, *infra* ("[T]wo weeks ago, we held our global sales conference, bringing the entire sales team together for the first time ever. The incredible spirit and unity I saw over the entire event are added signs that *the integration issues are behind us*.").

1 described it as an “ongoing conversation,” adding that it was “all we talked about,” including “all
 2 the way up” to Berger. By way of example, CW3 recalled attending one quarterly sales meeting
 3 that Berger held right after the acquisition, where such issues were discussed. CW3 recalled that
 4 at these meetings, sales personnel asked Berger about what they were supposed to tell customers
 5 who were nervous about how the company would combine its products (hardware and software)
 6 – but Berger had no real answers, as described above. CW3 added that the feedback from Berger
 7 at this meeting was that “**we’re formulating the integration plan,**” thus showing that the
 8 Company did not have a plan at that time (right after the acquisition).

9 (ii) **Extreme Lacked a Plan to Merge the Two Salesforces**
 10 **and Other Steps to Cut Costs and Obtain Integration**
Synergies

11 106. According to CWs 1, 3, and 5, another key part of an integration plan that was
 12 lacking was a plan to merge the two companies’ salesforces, including, for example, how
 13 customer accounts would be reassigned or divided up among the sales personnel. For instance,
 14 CW1, stated that there was also no plan with respect to how to combine the salesforces of the
 15 two companies, which s/he knew based on his/her close working relationship with the sales
 16 personnel, including CW1’s attendance at the team sales meetings described above. For
 17 example, CW1 recalled that after the acquisition there was no plan as to “account management”
 18 – *i.e.*, which salesperson would run which customer accounts and who would be in leadership
 19 positions – particularly given the substantial overlap in sales employees created by the
 20 acquisition, as detailed below. *See* ¶120, *infra*. According to CW1, this lack of a plan for
 21 account management compounded the integration problems.

22 107. There was also no integration plan by which the salesforces would be combined
 23 based on centralized, objective criteria, such as the sales representatives’ performance history,
 24 years of experience covering particular territories and customers, and similar metrics. For
 25 example, CW1 stated that after Chris Crowell, the former Enterasys CEO, took over as COO of
 26 the combined Company he put former Enterasys managers in positions of authority, who
 27 replaced the Extreme sales leadership with Enterasys personnel, who then similarly retained their
 28 own legacy Enterasys personnel. This resulted in substantial employee redundancies, as further

1 detailed below. Thus, according to CW1, the sales personnel and territories were combined
2 based on subjective, *ad hoc* factors that were not tied to any past performance-based metrics,
3 rather than according to an integration plan.

4 108. CW1 confirmed that the integration, including with respect to the salesforce and
5 the product roadmap, was not complete by the time s/he left in April 2014.

6 109. Similarly, CW3 stated that there was also no plan for achieving synergies from
7 the integration. CW3 explained that management provided no direction for how to attain
8 synergies after the acquisition, and that no synergies were achieved in any aspect of the
9 Company with which CW3 was familiar. CW3 elaborated that by this, s/he meant that there was
10 “no incremental value” added from the acquisition to either Extreme’s customers or the
11 Company from an earnings or cost-savings perspectives, and no plan as to how generate such
12 synergies – *e.g.*, there was no plan about eliminating product costs or achieving any supply chain
13 efficiencies that would offer tangible financial benefits to the Company. CW3 added that at the
14 time the acquisition was announced, the Company did not know where the synergies would
15 come from, and by the time the acquisition closed, it was clear that there was no compatibility
16 between the two companies’ products. Ultimately, CW3 stated, “zero” synergies resulted from
17 the integration.

18 110. CW3 also confirmed that during the quarterly sales meetings the participants
19 explicitly discussed how there was “**no plan**” as to how to achieve synergies from the
20 acquisition. (As noted above, Berger attended quarterly sales meetings throughout the Class
21 Period and led them from May 2014 through October 2014.) CW3 further stated that sales
22 personnel raised similar questions about the lack of a plan to achieve synergies at the annual
23 global sales meeting in Las Vegas in July or August of 2014 where Berger similarly described
24 their plan for achieving synergies, as “TBD.” Based on such conversations, CW3 understood
25 that Extreme was not really sure how to put these two companies together and that it was clear
26 that “there wasn’t a lot of thought” put into how to get synergies out of this acquisition.

27 111. Another CW who joined Extreme in August 2014 likewise confirmed that there
28 was no integration plan as of that time. Confidential Witness 5 (“CW5”) was employed by

1 Extreme from August 2014 until February 2015. CW5 last held the position of “Solutions
2 Marketing Manager.” CW5 recalled coming to work for Extreme in August of 2014 and being
3 told that, instead of the Company having an integration plan in place, the “dust had not yet
4 settled from the integration,” the Company was still going through a “period of adjustment,” and
5 people were still trying to figure out the best ways of working together.

6 (iii) **Extreme Lacked a “Go-to-Market” Strategy for the**
7 **Combined Company**

8 112. Another aspect of the lack of an integration plan was the lack of a “go-to-market
9 strategy.” For example, CW3 stated that Extreme had no “go-to-market strategy” for the
10 combined Company after the acquisition. CW3 explained that this meant there was no business
11 model setting forth the products Extreme would build, how it would price them for profitability,
12 or to whom and how it would sell them. In fact, CW3 stated that Extreme hired Jeff White as
13 CRO (in October 2014) to develop such a go-to-market strategy, which Extreme **still** did not
14 have at that time, over a year after the acquisition. CW3 knew this because soon after White
15 joined the Company (on October 1, 2014), White held a meeting with the global salesforce
16 (including CW3), via a WebEx conference call that lasted approximately one and a half hours,
17 where White acknowledged the absence of a go-to-market strategy post-acquisition at that time
18 and made it clear that part of his job was to develop such a plan. According to CW3, Berger also
19 participated in this call.

20 113. CW3 further indicated that there was “no way” for sales to increase without a go-
21 to-market strategy. As a Territory Sales Manager, CW3 would have been responsible for
22 implementing any go-to-market strategy. CW3 further indicated that s/he was present when the
23 lack of a go-to-market strategy was raised directly with Berger during the quarterly sales
24 meetings detailed above, to which Berger similarly replied that Extreme was “**working on it.**”
25 Berger’s statement that Extreme was still “working on” developing a go-to-market strategy for
26 the combined Company was an admission that Extreme lacked such a plan during the Class
27 Period.
28

1 114. CW3 concluded that given this lack of a plan to integrate the two companies,
 2 including the lack of a combined product roadmap, the lack of a go-to-market strategy and plan
 3 to achieve synergies, “there was no possible way revenues would increase.”

4 115. CW1 similarly stated that after the acquisition, and until s/he left in April 2014,
 5 there was no determined “go-to-market” strategy for the combined Company. CW1 explained
 6 that it was “piecemeal” and incomplete and that they were still trying to figure it out by the time
 7 CW1 left. CW1 elaborated that there were two different sets of products and two different
 8 approaches to marketing and that, due to the lack of an integration plan, the Company was
 9 struggling how to combine them. CW1 confirmed that s/he knew this based on CW1’s close
 10 working relationship with the sales team, including participation in sales team meetings and
 11 quarterly sales calls, where this issue was “constantly” discussed. Further, although Marketing
 12 and Sales had primary responsibility for creating a go-to-market strategy, engineers such as CW1
 13 provided important input because of their technical expertise and their feedback from customers.

14 116. CW1, CW2, and CW3 confirmed an understanding that Extreme’s integration of
 15 Enterasys was a failure from the start because of a lack of integration plan, including the lack of
 16 a combined product roadmap, the lack of a plan to merge the salesforces, the lack of a plan to
 17 take other steps to cut costs and achieve integration synergies, and/or the lack of a go-to-market
 18 strategy.

19 117. The CWs’ allegations above were confirmed by Meyercord’s statements on a
 20 September 14, 2016 analyst conference call where he admitted that Extreme lacked the necessary
 21 “integration planning” and “product and technology roadmap” for the Enterasys integration,
 22 resulting in “a lot of integration issues” during the Class Period, as discussed in greater detail
 23 below. *See* Section V.I.4. *infra*.

24 **2. Extreme Experienced Substantial Salesforce Integration Problems**
 25 **During the Class Period, Which Defendants Failed to Disclose**

26 118. As a result of Extreme’s lack of an integration plan for the Enterasys acquisition,
 27 during the Class Period the Company experienced undisclosed, substantial integration problems,
 28 particularly among the salesforce, including: (a) substantial employee redundancies, which

1 showed that Extreme failed to achieve the cost-saving synergies from the integration during the
2 Class Period, and (b) the replacement of Extreme personnel by Enterasys personnel who were
3 not knowledgeable about Extreme's products, causing customer disruption and lost sales, as
4 detailed below.

5 119. Because of the Company's lack of an integration plan with respect to how to
6 combine the two salesforces and achieve cost-saving synergies, the merger of the two companies
7 produced substantial employee redundancies, particularly among the salesforce, which
8 undermined Defendants' repeated representations, *inter alia*, that they were "on track" to achieve
9 the \$30 to \$40 million of cost-saving synergies from the integration. CW1 stated that s/he
10 personally observed the Company's integration efforts in North America. CW1 was one of
11 approximately 6 or 7 Senior Systems Engineers (and one of approximately 30-45 total engineers
12 across the U.S.) before the Enterasys acquisition. CW1 stated that after the acquisition, those
13 numbers increased substantially because Enterasys was an equal-sized company and both
14 Extreme and Enterasys personnel stayed on post-acquisition, continuing to cover the same
15 territories and thus creating major overlap and redundancies in the employee structure. For
16 example, CW1 explained that Enterasys had many more engineers in the Southeast region; thus,
17 the number of engineers post-acquisition more than doubled. CW1 also stated that the same
18 overlap and redundancies were created in the salesforce after the acquisition. CW1 knew of such
19 salesforce redundancies based on his/her close working relationship with the salesforce,
20 including attendance at regular team meetings held by the sales director in CW1's region with all
21 the sales representatives in that region, where such issues were regularly discussed. CW1
22 recalled that at such meetings they were told by the sales leadership that Extreme was not cutting
23 the salesforce after the acquisition. Based on such conversations as well his/her attendance at the
24 quarterly sales calls with the entire salesforce, CW1 knew that this was true across the Company,
25 rather than just his/her region.

26 120. Similarly, Extreme experienced other salesforce integration problems due to the
27 lack of an integration plan for how to combine the salesforces and their territories, including, for
28 example, a plan for "account management" as described by CW1 above. *See* ¶106, *supra*. CW1

1 stated that s/he and a colleague, John Greiner (Extreme's Sales Director for the Southeast region
2 from July 2001-April 2014), were consistently cited as top performers at the regional level.
3 CW1 recalled that after the acquisition of Enterasys, their (CW1's and Greiner's) territory of
4 almost 10 years was taken from them and "divvied up to 8-10 Enterasys people" who had no
5 experience or understanding of Extreme's legacy products. (The Company continued to employ
6 CW1, as well.) CW1 described that CW1's client base used Extreme legacy products and
7 because the Enterasys replacements did not understand the Extreme legacy products, clients
8 became dissatisfied. CW1 listed examples of legacy Extreme customers who were dissatisfied
9 due to the lack of understanding from Enterasys sales personnel, including the University of
10 Central Florida, the University of West Georgia, and Georgia State University, with whom s/he
11 personally interacted during this time period. CW1 was certain that at least one large client –
12 DeKalb Schools (then the third-largest school district in Georgia) – was lost as a direct result of
13 the integration failures s/he personally observed, described above. CW1 also stated that the
14 University of Central Florida decided not to expand its current contract for the same reasons,
15 losing progress sales people had made before the integration. CW1 further recalled that Extreme
16 also lost Abbott Laboratories for the same reasons, which had been its "largest customer" worth
17 several million dollars in the years CW1 was with the Company.

18 121. CW1 called the results of being replaced with Enterasys people who did not
19 understand Extreme legacy products "**disastrous**," and indicated that s/he voiced her/his
20 opposition with CW1's superior, Barger (Senior Director of Worldwide Systems Engineering, as
21 noted above), before CW1's voluntary departure in April of 2014. CW1 identified these
22 integration problems as the reason for CW1's resignation.

23 122. CW1 further stated that after s/he submitted CW1's resignation on April 1, 2014,
24 s/he was contacted by CEO Berger and asked to reconsider. CW1 recalled this conversation with
25 Berger in detail. CW1 recalled that s/he described the reasons for CW1's departure to Berger at
26 length, including the manner in which s/he and Greiner were replaced by Enterasys personnel,
27 who were not as familiar with legacy Extreme products, despite CW1's and Greiner's superior
28 performance. CW1 also related the ensuing negative impact on customers and revenue in their

1 region to Berger. CW1 stated that during this conversation Berger expressed his concern that a
2 top-performing team (CW1 and Greiner) were leaving, acknowledging that it was a sign of
3 broader problems with the integration. CW1 understood from this conversation that Berger was
4 concerned about this because while some challenges were to be expected in any integration, this
5 one was “unique” in that personnel were being integrated based on individual executives’
6 preferences—*i.e.*, subjective, *ad hoc* factors that were not tied to any past performance metrics—
7 rather than according to a systematic plan. CW1 stated that Berger had a similar conversation
8 with Greiner (who also resigned for similar reasons) at this time. (CW1 learned this through a
9 conversation with Greiner after they both spoke to Berger.) CW1’s personal interaction with
10 Berger, discussing CW1’s personal experience with the integration failures, as well as Berger’s
11 response, directly evidences Berger’s personal knowledge of the integration failures recited
12 herein, including the lack of an integration plan.

13 123. Moreover, the fact that CEO Berger personally contacted CW1 after CW1
14 announced his/her resignation further demonstrates that Berger was a hands-on CEO who closely
15 managed Extreme’s operations, including with respect to Extreme’s integration efforts.

16 124. Likewise, as noted above, CW2 was of the opinion that the integration was
17 “problematic right from the get-go” CW2 specified particular problems that s/he personally
18 observed as a result of the acquisition. For example, CW2 believed that “people synergies” or
19 the elimination of employee redundancies did not actually start until Meyercord replaced Berger
20 as CEO (after the Class Period), as Meyercord brought a new “tough love” approach.

21 125. So, too, CW3 described the Company’s failure to integrate overlapping sales
22 force personnel after the acquisition of Enterasys. In fact, CW3 stated that the integration was a
23 “reverse acquisition” in that Extreme overlaid Enterasys sales personnel on top of existing
24 Extreme ones, resulting in legacy Extreme salespeople (including CW3) having Enterasys
25 “counterparts” covering the same areas, creating redundancies. S/he indicated that Enterasys
26 sales people had absolutely no knowledge of Extreme’s products or clients, yet were given sales
27 territories “ripped” from Extreme salespeople who had built relationships in those territories over
28 years. CW3 also described the example of John Greiner, Extreme’s Sales Director for the

1 Southeast region from July 2001-April 2014, whom CW3 describes as having received an award
2 for bringing in \$100 million in revenue during his tenure. CW3 described how, after the
3 acquisition, a legacy Enterasys executive named Mike Fabiaschi got rid of Greiner to replace
4 him with Enterasys personnel. Accordingly, that personnel were replaced based on individual
5 executives' preferences—*i.e.*, subjective, *ad hoc* factors that were not tied to any past
6 performance metrics, rather than in a systematic manner designed to maximize Extreme's
7 financial results—further demonstrates that the Company lacked an integration plan to combine
8 the two salesforces.

9 126. CW3 indicated that upper management knew about the integration problems
10 because s/he personally related them to Berger. CW3 recalled that s/he spoke with Berger twice
11 in October or November of 2014, first over the telephone and later in person while Berger was in
12 New York City to meet with investors and analysts. CW3 related that s/he specifically told
13 Berger of the problems integrating the sales teams, including Fabiaschi's decision to replace
14 Greiner. CW3 stated that Berger indicated that he already knew about what happened with
15 Greiner, was angry about it, and would look into the situation further. CW3 confirmed that s/he
16 and Berger discussed this Greiner replacement as an example of broader problems with the
17 salesforce integration efforts. According to CW3, Berger acknowledged during this conversation
18 that he knew of the "adversarial" relationship between the two groups. CW3 also stated that,
19 based on this conversation and the quarterly and annual sales conferences that Berger attended, it
20 was clear to CW3 that Berger knew about these company-wide salesforce integration problems.

21 127. Additionally, the fact that Berger had such direct, one-on-one conversations with
22 a Territory Sales Manager further shows that he was a hands-on CEO who closely managed
23 Extreme's operations, including specifically the salesforce and its integration after the Enterasys
24 acquisition.

25 128. Thus, CW1, CW2, and CW3 all confirmed their understanding that Extreme's
26 integration of Enterasys was consistently a failure through the time they were at Extreme.

27 129. Other former employees echoed the integration problems described above,
28 particularly Extreme's failure to eliminate employee redundancies, which undermined

Defendants' representations that they, as part of an integration plan, had a plan to achieve cost-saving synergies. Confidential Witness 4 ("CW4") was employed by Extreme from February 2008 until February 2014. CW4 held the position of Regional Sales Director during the Class Period. CW4 indicated that s/he was re-assigned to be Regional Sales Director of a new region in 2013 to accommodate an Enterasys legacy appointment to CW4's region.⁹ CW4 stated that s/he was rated as a sales leader prior to CW4's voluntary departure from Extreme, and was assured that the Company wished to retain CW4.

130. CW4 observed one reason why the integration failed, which was a lack of action to manage duplication between the two businesses, as illustrated by CW4's own re-assignment. CW4 stated that Extreme and Enterasys were about equal in size and each came with overlapping product lines and a duplicate sales structure. CW4 observed that COO Chris Crowell, who had been the CEO of Enterasys, looked out for his people and slotted an Enterasys individual to run North American Sales. CW4 provided a specific example of the duplicate personnel structure post-acquisition (in addition to CW4's own situation): a New York sales representative who was executing quite favorably while his Enterasys counterpart was not selling anything, but both continued at overlapping positions for a year. CW4 personally observed that sales people were stepping on each other by calling the same accounts.

131. Thus, Defendants experienced but did not disclose substantial salesforce integration problems, which resulted from Extreme's lack of an integration plan, during the Class Period.

3. The Company Experienced Significant Executive Turnover During the Class Period Related to Its Substantial Integration Problems

132. Effective November 1, 2013, Chris Crowell joined Extreme as its Chief Operating Officer. Crowell had been the former CEO of Enterasys.

⁹ Lead Plaintiff believes that the details of CW4's identity contained herein are sufficient to satisfy the requirements of the PSLRA. Lead Plaintiff can provide additional specificity, including the regions for which CW4 and CW4's replacement were responsible, to the Court through an in camera submission.

1 133. On a November 4, 2013 conference call, Berger characterized Crowell's hire as
 2 "significant progress" on the integration, specifying that Crowell's role would include "direct
 3 responsibility for sales and marketing" to "maintain the entire revenue streams of both
 4 companies." Berger continued, "I have no doubt he will succeed."

5 134. On May 6, 2014, the Company announced in a press release that Chris Crowell
 6 "will be leaving the Company effective immediately." In another press release the same day, the
 7 Company announced that Kurtzweil would transition on June 2, 2014 from CFO to "special
 8 assistant to the CEO," before his departure at the end of September 2014, and that Arola would
 9 become the Company's new CFO. None of the disclosures explained the reasons for these
 10 changes. As noted above, Extreme's stock price fell more than 25% on this news.

11 135. The Company was not immediately prepared with a replacement for Crowell.
 12 Instead, Berger disclosed in a conference call later the same day that, notwithstanding prior
 13 assurances, there had been problems with the integration and that, as a result, he would be taking
 14 a more direct role in the integration efforts:

15 As we move on to the next phase of the integration I feel that **it is critical that I**
 16 **stay close to our field organizations** [i.e., the salesforce] particularly in North
 17 America **where we have experienced some integration issues.** The field
 18 organizations and corporate marketing will **report directly to me effective**
 19 **today.**

20 136. A May 7, 2014 Wunderlich Securities analyst report observed that "[c]hallenges
 21 **of combining** like-size companies impacted Extreme 3Q14 results and outlook with the
 22 Americas team **lagging behind integration** in other regions. **Because of this, the COO has**
 23 **recently left the company and CEO Chuck Berger will run sales for the time being.**" The
 24 report also noted that "a new CFO has been recruited," interpreting this as partially negative
 25 news because "we believe departing **CFO John Kurtzweil has been a major factor in driving**
 26 **most of the Enterasys integration.**" On this news, the analyst report revised its estimates
 27 lower.
 28

137. On October 1, 2014, the Company issued a press release announcing that it had
 hired Jeff White to be its new Chief Revenue Officer. White, as CRO, would be "responsible for

1 overseeing Extreme's global sales and marketing organizations." The role did not exist before
 2 White's hire. Ever since the Company lost Crowell as COO, "field organizations and corporate
 3 marketing" had been reporting **directly** to CEO Berger. *See* ¶ 135, *supra*.

4 138. Accordingly, from May to October 2014, when Berger was acting as head of
 5 Sales, he directly oversaw the salesforce and its ongoing integration efforts, including by leading
 6 the quarterly sales calls and the annual global sales conference in the summer of 2014, as CW3
 7 described above (*see* ¶¶ 103-104, 110 *supra*). Based on this role, Berger had direct knowledge of
 8 the salesforce integration problems that existed at the time, as described by the CWs above.
 9 Thus, he knew or recklessly disregarded that his subsequent statements regarding the integration
 10 (*e.g.*, his August 14, 2014 statements that the "***sales force integration is complete***" and that
 11 "***integration issues are behind us***") were false and misleading.

12 139. Analysts recognized that the appointment of White in the Chief Revenue Officer
 13 role was to remedy continuing problems integrating Extreme and Enterasys, particularly their
 14 respective sales forces. For instance, the Buckingham Research Group issued a report on October
 15 1, 2014 and noted that White was to fill a "key void" that was created when Chris Crowell was
 16 terminated as COO:

17 Given the sales transition issues the company has faced in recent quarters, we
 18 think the appointment [of Jeff White as Chief Revenue Officer] is a positive,
 19 particularly given Mr. White's international experience [from competitor
 20 Cisco]... Bottom line, a key void is filled and given Mr. White's substantial
 21 international and leadership experience, we expect near term strategic changes
 22 and realignment of the sales organization, leading to top line improvement in
 23 2015.

24 This executive-level turnover was directly related to the Company's substantial integration
 25 problems.

26 140. Then, on April 9, 2015, Extreme preannounced that it would miss guidance for
 27 Q3 2015. The Company also announced that White, who had been hired only six months earlier
 28 to manage the integration of the Extreme Networks and Enterasys salesforces, was "no longer
 with the Company." Trading in Extreme shares was halted. As described more fully above, *see*

1 Section V.G., *supra*, this executive-level turnover was directly related to the Company's
2 substantial integration problems.

3 141. CW3 recalled that Jeff White's brief tenure was another aspect of the failed
4 integration. In late 2014, CW3 recalled receiving company-wide emails from Berger announcing
5 the hiring of White (which occurred on or about October 1, 2014). Based on such emails, CW3
6 stated that Berger and the Board "touted" White's hiring as intended to fix Extreme's continuing
7 sales and integration problems post-acquisition. CW3 further explained that after Berger fired
8 Chris Crowell (in May 2014), Berger took on Crowell's role of the head of Sales (in addition to
9 CEO); however, Berger's time serving as both CEO and direct head of Sales (from May 2014 to
10 October 2014) turned out to be "too big a job," so Berger and the Board were bringing in White
11 to revitalize Extreme's sales channel and fix the persisting integration problems. Thus, as late as
12 October 2014, substantial salesforce integration problems still existed and thus prevented the
13 salesforce integration (and, by extension, the integration as a whole) from being complete, an
14 issue that Berger knew and acknowledged in a company-wide email at the time that significant
15 action still needed to be taken.

16 142. Moreover, on October 15, 2014, Berger admitted that the integration was only
17 "**nearly** completed," contrary to his and Arola's prior statements on August 14, 2014 that the
18 two companies, and specifically their salesforces, were "**now fully integrated**" and that the
19 salesforce integration was "**complete**" at that time.

20 143. Likewise, on January 28, 2015, Berger again admitted that, contrary to his and
21 Arola's prior statements on August 14, 2014 and Arola's statement on December 17, 2014 that
22 the salesforce integration had been "complete" and/or the two teams "fully integrated," it still
23 was not complete at this time: "**while we are making daily substantial progress on the**
24 **complete integration and upgrading of our salesforce**, it is clear that we still have
25 considerable work to do going forward."

26 144. Further, CW3 confirmed that the salesforce integration still was not "complete" in
27 2015, contrary to Defendants' assurances on August 14, 2014 and December 17, 2014.
28 According to CW3, after joining the Company (in October 2014), White embarked on a

1 “listening tour” around the world, which was intended to fix the continuing salesforce problems,
 2 culminating in a two-hour global salesforce call in early 2015 in which White listed “many
 3 things wrong” with the Company. CW3 attended this call along with the global salesforce and
 4 sales leadership. CW3 recalled that White also described his agenda on the call as his “burning
 5 platform.” On this call, White further described the Company as a “**disaster**” and “**a hot mess**,”
 6 -- making it clear to CW3 that the salesforce integration was still not complete. However, CW3
 7 stated that shortly thereafter (approximately six months after White joined the Company), White
 8 was abruptly no longer with the Company. CW3 recalled that White’s initiatives ultimately went
 9 nowhere; in CW3’s words, “nothing happened,” which CW3 suggested explained why he
 10 “lasted” only for a few months at the Company. Approximately three months after White’s call
 11 with the global salesforce, CW3 recalled receiving a company-wide email announcing White’s
 12 departure. Accordingly, given that White was specifically brought in by Berger and the Board to
 13 fix the continuing salesforce integration issues, which he confirmed in the global salesforce call
 14 persisted after his arrival, and which he then failed to resolve during his brief tenure, the
 15 salesforce integration (and, by extension, the integration as a whole) was still not complete as of
 16 his departure on April 9, 2015.

17 145. Finally, in an April 21, 2015 press release, Extreme announced that Berger would
 18 be resigning as CEO effective immediately. The same release stated he would be replaced by
 19 Board Chairman Ed Meyercord. As described more fully above, *see* Section V.G, *supra*, this
 20 turnover at the Company’s highest levels was further evidence of the Company’s substantial
 21 integration problems.

22 4. Summary of CW Allegations Concerning the Enterasys Integration

23 146. According to these detailed CW accounts, Extreme lacked an integration plan,
 24 including any plan setting forth how the two salesforces would be integrated, any product
 25 roadmap to integrate the two companies’ separate product lines, any go-to-market strategy for
 26 the combined Company, and any plan to achieve \$30-\$40 million in integration synergies.
 27 Proceeding without any such plan led to serious integration problems during the Class Period: it
 28 resulted in numerous employee redundancies; placed legacy employees from one company *ad*

1 *hoc* on the products and clients of the other, which they did not understand; caused substantial
 2 customer dissatisfaction, particularly due to the lack of a product roadmap; and resulted in lost
 3 business. Further, the Company's significant executive turnover, the CWs confirmed, was
 4 driven by these substantial integration problems and Defendants' lack of an integration plan.
 5 Thus, the CWs demonstrate that, contrary to Defendants' representations, the Enterasys
 6 integration and synergies were not "on track" or "ahead of plan," that customers experienced
 7 "disruption" during the integration, and that the salesforce integration was not "complete," nor
 8 the integration problems "behind" the Company when Defendants assured that they were.

9 5. Summary of Berger's Admissions Regarding the Integration

10 147. In sum, Berger publicly and privately admitted information about the true state of
 11 Extreme's integration, while concealing the same information from investors during the Class
 12 Period. As reported by CW3, at an internal quarterly sales meeting that he held immediately
 13 after the acquisition, when sales personnel raised customer concerns about the lack of a product
 14 roadmap or plan to combine products, Berger responded: "**we're formulating the integration**
 15 **plan,**" thus admitting it did not yet exist. As CW3 further reported, at the Company's annual
 16 global sales meeting in Las Vegas in July or August of 2014, when Berger was **acting head of**
 17 **Sales**, he admitted to the Company's global salesforce that the integration plan was still "**to be**
 18 **determined**" or "**TBD.**" In fact, throughout Berger's time as head of Sales (May to October
 19 2014), CW3 observed Berger responding to internal questions about the lack of an integration
 20 plan, including a product roadmap and a go-to-market strategy for the combined Company, by
 21 responding "**we're working on it**" and "**we'll get back to you.**"

22 148. Further, in an October 15, 2014 press release, after months of telling investors that
 23 the salesforce integration was "complete," Berger publicly admitted that the integration was only
 24 "**nearly completed.**" Defendants again declared on December 17, 2014 that the salesforce
 25 integration was "complete" and the two teams were "fully integrated," only for Berger to later
 26 admit on January 28, 2015 that the Company still had to make "**substantial progress on the**
 27 **complete integration,**" with "**still . . . considerable work to do.**"

1 **H. Defendants Lacked Any Reasonable Basis to Believe That the Lenovo**
 2 **Partnership Would Positively Impact Extreme’s Revenue and Omitted**
 3 **Adverse Facts Undermining Their Statements Regarding Lenovo**

4 149. CW4 personally observed that the Company’s alliance with Lenovo was pushed
 5 very hard internally by Executive Vice President Eileen Brooker, but noted that all activity was
 6 at the strategic level and nothing came down to the field level. CW4 stated: “There were no
 7 joint meetings, no Go-to-Market sessions, no follow-up – there was no field level activity
 8 towards that alliance.” CW4 stated that s/he “certainly wanted to get together with Lenovo
 9 teams” but was not able to.

10 150. Confidential Witness 7 (“CW7”) was employed by Extreme from May 2013 until
 11 January 2015. CW7 last held the position of “Account Executive-Lenovo.” CW7 related that
 12 s/he had no direct report during CW7’s tenure, but would have occasional contact with Executive
 13 Vice President Eileen Brooker. CW7 stated that there was “no mechanism in place” for the
 14 Lenovo sales people to benefit from Extreme’s product line the entire time s/he was with the
 15 Company. Accordingly, Lenovo sales personnel had no incentive to sell Extreme’s products
 16 (explaining the lack of field activity described by CW4), thereby rendering this partnership
 17 useless for Extreme.

18 151. As described in more detail below, *see* Section V.I., revelations after the Class
 19 Period confirmed the CWs’ observations. At the Company’s May 6, 2015 earnings call, new
 20 CEO Meyercord confirmed that the Lenovo partnership had not yet translated into sales at the
 21 field level, and that Extreme had “**zero visibility**” into when it would. It further confirmed that
 22 the Company had no basis to “forecast” any revenue growth from the Lenovo partnership.

23 152. With no Lenovo activity at the “field” level and no visibility into when the so-
 24 called partnership would translate into any sales – material, adverse facts that Defendants knew
 25 but failed to disclose during the Class Period – Defendants had no reasonable basis to conclude
 26 that the Lenovo partnership would drive any revenue growth at all, much less “certainly” at least
 27 10% revenue growth by June of 2015. *See* Section V.H., *supra*.

1 **I. Post Class-Period Revelations**

2 **1. Meyercord's May 6, 2015 Admissions Regarding the Enterasys**
3 **Integration and Lenovo Partnership**

4 153. On the May 6, 2015 conference call to discuss the Company's third fiscal quarter
5 2015 financial results, the Company's CEO, Meyercord confirmed that the acquisition of
6 Enterasys and subsequent integration efforts were a failure. When an analyst asked Meyercord
7 how to evaluate the Company's loss of almost \$100 million in revenue since Extreme acquired
8 Enterasys, Meyercord stated that the acquisition "wasn't a very good deal" and that there were
9 problems with its "execution":

10 ... [I]f I go back to the Enterasys acquisition with Extreme, if you look at it on
11 paper, you'd say **that wasn't a very good deal. There's no doubt there were**
12 **some execution issues, and it was harder for the teams to put the companies**
13 **together than anticipated.**

14 154. The Company's May 6, 2015 earnings press release and prepared statements
15 during the earnings call also no longer touted – or even mentioned – the Lenovo partnership. At
16 the earnings call, an analyst asked: "And how about an update on Lenovo? You didn't mention
17 that. Is that still a few quarters out?" Meyercord's response confirmed the truth, that the
18 Company had no basis for committing to future revenue growth from the Lenovo relationship:

19 One of the things that I looked at when I came in was taking a deeper dive into
20 Lenovo. And there's a lot of changes happening in that organization. We've got a
21 very good relationship at the corporate level with the Lenovo folks. But, the deals
22 right now are happening out in the field, and **it's just a question of whether or**
23 **not we're collaborating in the field to get deals done with them,** which it's
24 hard to step on a throttle when that's the situation. So, I don't have much visibility
25 into that. At this stage, **I have zero visibility into Lenovo.** So, as far as where
26 that is or how you're building that as a model, **I'd be uncomfortable giving you**
27 **a forecast for Lenovo.**

28 This statement indicated not only that the Company did not know "whether or not we're
collaborating in the field to get deals done with" Lenovo, but also that it had no "visibility" or
other basis to forecast revenue growth from the Lenovo partnership. Given that two CWs
reported a lack of field-level activity between Lenovo and Extreme sales personnel early in the
Class Period (*see* ¶¶149-150, *supra*) and this admission of "zero visibility" into Lenovo shortly

1 after the Class Period, it is a strong inference that there was a similar lack of field activity with
2 and visibility into Lenovo in between, and thus throughout the Class Period.

3 **2. Meyercord's May 20-21, 2015 Announcement of a "New Operating**
4 **Plan," Including an 18% Workforce Reduction and a "New Go-to-**
5 **Market Strategy"**

6 155. Two weeks later, Extreme announced that it was reducing its workforce by 18%,
7 confirming that its integration efforts during the Class Period failed to remove redundancies.
8 Specifically, on May 20, 2015, the Company issued a press release, which announced a "new
9 operating plan." The "first step" of this plan was to "restructure its global workforce and
10 implement other operating cost reductions," which was "expected to yield approximately \$40
11 million in reduction to operating costs in fiscal 2016." This announcement of a "new operating
12 plan," including these cost-saving measures, confirms the CWs' allegations that there was no
13 such prior plan to achieve integration synergies during the Class Period. The use of the word
14 "new" to describe Extreme's operating plan is an admission that such a plan for achieving cost-
15 saving synergies from the integration did not exist previously, further showing the falsity of
16 Defendants' prior statements that referenced or created the strong impression that such a plan
17 existed.

18 156. On May 21, 2015, Extreme hosted a conference call to discuss this "New Go-to
19 Market Strategy and Realignment," which was already being put into effect. During the Call,
20 Meyercord explained that "the actions we took yesterday" to create these \$40 million in cost
21 savings were "**primarily associated** with the reduction of 18% of the global workforce" equal to
22 "approximately 300 employees worldwide." Those numbers confirmed that Extreme had been
23 employing approximately 1,666 people, which was substantially identical to the 1,650 employees
24 it had employed **at the beginning of the integration almost two years earlier**. *See supra* ¶51.
25 This strongly corroborates the statements of the four CWs who said that redundancies in the
26 workforce were not being eliminated throughout the Class Period, reinforcing the allegations that
27 there was no integration plan with respect to achieving cost-saving synergies from reducing the
28 salesforce and other employees. *See* ¶¶106-107, 119-120 (CW1), ¶124 (CW2), ¶¶110, 125,
(CW3), and ¶130 (CW4). In particular, it supports the statement of CW2, a senior executive

1 before, during, and after the Class Period, who said that the elimination of employee
 2 redundancies did not actually start until Meyercord replaced Berger as CEO. *See* ¶124. Overall,
 3 the Company’s post-Class Period workforce reduction revealed that Defendants’ statements
 4 committing to and reassuring investors of \$30-\$40 million in cost-saving “synergies” were false
 5 and misleading because Defendants knew or should have known that Extreme would not be able
 6 to accomplish \$30-\$40 million in cost-saving “synergies” without substantial elimination of
 7 workforce redundancies created by the Enterasys acquisition, which did not occur as part of the
 8 integration efforts during the Class Period.

9 157. Extreme’s May 20, 2015 press release, titled “Extreme Networks Unveils **New**
 10 Solutions-Based Strategy: **Go-to-Market Plan** and Company Realignment to Deliver Bundled
 11 Software and Services-Driven Networking Solutions Combined with the Highest Level of
 12 Customer Support,” further announced that, as part of Extreme’s “new operating plan,” it was
 13 “implementing its **new** solutions-based **go-to-market strategy**,” confirming CW3’s statements
 14 that there was also no such prior go-to-market strategy during the Class Period. Again, the use
 15 of the word “new” to describe Extreme’s go-to-market strategy is an admission that such a plan
 16 did not exist previously, further supporting the falsity of Defendants’ prior statements
 17 referencing or creating the strong impression that an integration plan, including such a go-to-
 18 market strategy for the combined Company, existed. Additionally, the May 20, 2015 press
 19 release revealed that “[t]o **develop the new strategy**, the company **initiated** a comprehensive
 20 review process **in January** that included input from analysts, customers and partners.”
 21 Accordingly, not only did Extreme lack such a “go-to-market strategy” until May 2015, it did not
 22 even begin to develop one until January 2015, just three months before the end of the Class
 23 Period. In the press release, Meyercord touted this new go-to-market strategy as “**a tangible,**
 24 **executable plan**” that reflected “a clear cut strategy centered on software and service led
 25 solutions and **a definitive transformation in how the company goes to market**,” underscoring
 26 the importance of such a plan to the success of the Company.

1 **3. Meyercord’s May 21, 2015 Admissions Regarding the Lenovo**
 2 **Partnership**

3 158. On the same May 21, 2015 conference call, an analyst asked the Company for an
 4 update on “the potential Lenovo opportunity.” Meyercord reiterated that “**we don’t have a**
 5 **specific target for Lenovo,**” and there was “**nothing tangible** for us to guide you towards”
 6 regarding any revenue contribution from the Lenovo partnership. Meyercord put the issue to rest
 7 by concluding that “until something comes up with Lenovo, my preference is to **just take it off**
 8 **the table.**” These statements further confirmed that Defendants had no reasonable basis to
 9 commit to revenue growth from its relationship with Lenovo during the Class Period.

10 159. Subsequent to the May 21, 2015 conference call, Defendants ceased to describe
 11 the Lenovo partnership as a revenue driver. In fact, the Company has not mentioned any aspect
 12 of the Lenovo partnership or even Lenovo’s name in any of Extreme’s subsequent earnings calls
 13 or press releases. Extreme never included Lenovo in any subsequent 10Q or 10K where it
 14 purports to list all companies responsible for 10% or more of Extreme’s revenue. The Lenovo
 15 partnership thus never contributed double-digit revenue growth.

16 **4. Meyercord’s September 14, 2016 Admissions that the Enterasys**
 17 **Acquisition Lacked the Necessary “Integration Planning,” Including a**
 18 **“Clean and Clear Product and Technology Roadmap”**

19 160. On September 14, 2016, Extreme held a conference call with analysts to discuss
 20 its recently announced agreement to acquire the wireless Local Area Network (“LAN”) business
 21 from Zebra Technologies for \$55 million. During the call, a Buckingham Research Group
 22 analyst (the same analyst responsible for Extreme during the Class Period) asked Meyercord “if
 23 there is a plan in place” for the integration of this business, in contrast to “the Enterasys
 24 integration,” which was “a little bit challenging.” In his response, Meyercord admitted that
 25 “there were **a lot of integration issues**” in the Enterasys acquisition and that, in contrast, this
 26 new Zebra acquisition would be “very different,” including because it would have “extensive”
 27 and “detailed bottoms-up” “**planning**” – in particular, “**integration planning**” and a “**very**
 28 **clean and clear product and technology roadmap,**” thus strongly confirming the CWs’
 allegations that the Enterasys integration lacked such an integration plan and product roadmap:

1 [Analyst:] ... **But on the Enterasys acquisition, it was a little bit**
 2 **challenging**, I think, and you were not, obviously, involved in that
 3 whole thing. But there was **a little bit of a challenge** trying to
 maintain those customers and offer service to those customers.

4 **And I just wanted to know if there is a plan in place to keep**
 5 **these customers**, make sure you guys go after them from a service
 6 perspective, and not just that upgrade opportunity that is out there.
And I think you know what I'm talking about with Enterasys,
right? There was some early challenges, I think.

7
 8 [Meyercord:] **Absolutely.** And what I think everyone has to keep in mind is that
 9 the Extreme/ Enterasys, it was really a merger. And Extreme
 10 acquired a business that was actually larger than Extreme.
 11 ...
 12 And there were a lot of issues. **There were a lot of integration**
issues. There were a lot of technology debates about how the
roadmap should be built and where the Company should drive its
 investment in R&D.

13 This [new Zebra acquisition] is a very clean asset purchase. I will
 14 tell you, **we have a very clean and clear product and technology**
roadmap. ...

15 I will also tell you that, from a planning perspective, **a lot of work**
 16 **has gone into planning on this deal.** There was a due diligence
 17 phase. It was extensive. **Integration planning, which has been**
extensive and very collaborative.

18 ...
 19 **We have very extensive and detailed bottoms-up plans.** Now we
 20 go into the implementation phase, and we are feeling very
 confident about the integration.

21 The other comment that I made in my script is that we expect to --
 22 they are on Oracle and salesforce. We are on Oracle and
 23 salesforce. So it is really a porting exercise here that we expect to
 get done in less than 45 days after closing. **Very different.**

24 161. Securities analysts reporting on this conference call understood Meyercord's
 25 statements above as admissions that the Enterasys integration had substantial problems. For
 26 example, a Buckingham Research Group report on September 16, 2016 discussed Extreme's
 27 "focus[] on execution and integration post the ZBRA deal close" and noted under "Key Points:"
 28

1 “Acknowledging that the Enterasys execution was not smooth, management is determined
2 to not to make the same mistakes.”

3 162. Similarly, a September 14, 2016 Craig-Hallum analyst report discussed Extreme’s
4 acquisition of the Zebra wireless LAN business as a positive development and stated that “the
5 acquired business has the same ERP and CRM systems as Extreme and remind investors that
6 while the integration of these systems were a **major challenge in the Enterasys acquisition** we
7 don’t see that being an issue here.”

8 **VI. DEFENDANTS’ MATERIALLY FALSE AND MISLEADING STATEMENTS**
9 **AND OMISSIONS DURING THE CLASS PERIOD, AND ANALYST AND**
10 **MARKET REACTIONS THERETO**

11 163. During the Class Period, Defendants made the following false and misleading
12 statements and material omissions.

13 **A. Misstatements and Omissions Regarding the Enterasys Integration**

14 **1. September 12, 2013 – Business Update Conference Call**

15 **(a) Kurtzweil’s Misstatement and Omissions**

16 164. On September 12, 2013, Extreme issued a press release, before the market
17 opened, announcing that it had entered into an agreement to acquire Enterasys for \$180 million.

18 165. The Company hosted a conference call with analysts to discuss the acquisition
19 later that day. Defendants Berger and Kurtzweil participated in this call. During the call,
20 Kurtzweil explained the terms of the acquisition and stated that the two companies would be
21 fully integrated within 12 to 24 months, resulting in significant cost savings and related
22 “synergies” for shareholders:

23 Extreme Networks is purchasing all the outstanding shares of Enterasys Networks
24 for \$180 million in cash and is expected to close early in the fourth quarter of
25 2013. ... *When we have fully integrated the two Teams, we plan to reduce
product costs and operating expenses between \$30 million to \$40 million. We
expect to realize these synergies over a 12 to 24-month period.*

26 **(i) Falsity**

27 166. Kurtzweil’s statement in the preceding paragraph was false and misleading
28 because: (1) Extreme had no “plan” to achieve \$30-40 million in synergies, over a 12 to 24-

month period or otherwise, or to “fully integrate[] the two Teams” given the accounts of CWs 1, 2, 3, and 5 that Extreme lacked an integration plan, including a plan setting forth how the two salesforces would be integrated, a plan outlining other steps to cut costs and obtain integration synergies, a product roadmap for the combined Company, and a go-to-market strategy (*see* Section V.G., *supra*); (2) based on the accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to substantial integration problems from the beginning, including lost clients and client dissatisfaction with a salesforce that only understood half of the Company’s legacy products, and client dissatisfaction with the lack of a clear product roadmap, and a failure to correct personnel redundancies during the Class Period (*see* Section V.G., *supra*); (3) Meyercord admitted on September 14, 2016 that the Enterasys acquisition lacked such “integration planning,” including a “very clean and clear product and technology roadmap,” resulting in “a lot of integration issues” (*see* Section V.I.4.); (4) Meyercord announced on May 20-21, 2015 a “**new** operating plan,” including a “**new** go-to-market strategy” and a **new** cost-cutting measure of an 18% workforce reduction to save \$40 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created by the acquisition were not eliminated during the Class Period, and thereby showing that such cost-saving synergies were not achieved during the Class Period.

167. Kurtzweil’s statement was false and misleading in omitting the preceding material, adverse facts, because it created a strong impression of a state of affairs (a carefully planned integration that was reasonably likely to generate the \$30-40 million in synergies by the timeframe specified) that differed in a material way from the one that actually existed.

168. To the extent the statement conveyed Kurtzweil’s opinion, it was misleading because it lacked a reasonable basis and omitted Extreme’s lack of an integration plan, including the related components discussed above—facts which would conflict with what a reasonable investor would understand from the statement itself.

1 (ii) **Scienter**

2 169. As CFO, Kurtzweil knew, or was deliberately reckless in not knowing, that his
3 preceding statement was false and misleading because he knew about the lack of an integration
4 plan, including the related components discussed above, due to his role as CFO overseeing a
5 merger of equals, which was a core transaction for the Company, particularly given that,
6 according to analysts, he had “been a major factor in driving most of the Enterasys integration,”
7 as noted above (¶136). *See* Section VII.B., *infra*.

8 (b) **Berger’s Misstatement and Omissions**

9 170. During the September 12, 2013 call, Berger also assured investors that in the
10 integration between the two companies that “[t]here will be no disruption in customers’ ability
11 to grow and operate their networks. Period. None.”

12 (i) **Falsity**

13 171. Berger’s statement in the preceding paragraph was false and misleading because
14 (1) he could not assure such a lack of customer “disruption” during the integration given the
15 accounts of CWs 1, 2, 3, and 5 that Extreme lacked an integration plan, including a plan setting
16 forth how the two salesforces would be integrated, a plan outlining other steps to cut costs and
17 obtain integration synergies, a product roadmap for the combined Company, and a go-to-market
18 strategy (*see* Section V.G., *supra*); (2) according to CWs 1, 2, and 3, the lack of a product
19 roadmap for the combined Company, in particular, created substantial uncertainty and concern
20 among its customers because Extreme could not tell them how long their products would be
21 supported or when the combined products or updates would become available, leading customers
22 to delay making purchases or upgrades throughout the Class Period, thereby causing “disruption
23 to customers’ ability to grow and operate their networks” (*see* Section G.1.(a).(i)., *supra*); (3)
24 based on the accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to substantial
25 integration problems from the beginning, including lost clients and client dissatisfaction with a
26 salesforce that only understood half of the Company’s legacy products, and client dissatisfaction
27 with the lack of a clear product roadmap, and a failure to correct personnel redundancies during
28 the Class Period (*see* Section V.G., *supra*); (4) Meyercord admitted on September 14, 2016 that

1 the Enterasys acquisition lacked such “integration planning,” including a “very clean and clear
 2 product and technology roadmap,” resulting in “a lot of integration issues” (*see* Section V.I.4.);
 3 (5) Meyercord announced on May 20-21, 2015 a “**new** operating plan,” including a “**new** go-to-
 4 market strategy, supporting the statements of CWs 1, 2, 3, and 5 that there were no such prior
 5 plan during the Class Period.

6 172. Berger’s statement was false and misleading in omitting the preceding material,
 7 adverse facts because it created a strong impression of a state of affairs (a carefully planned
 8 integration that would not disrupt Extreme’s customers’ business) that differed in a material way
 9 from the one that actually existed.

10 173. Further, to the extent the statement conveyed Berger’s opinion, it was misleading
 11 because it lacked a reasonable basis and omitted these facts about Extreme’s lack of an
 12 integration plan, particularly the product roadmap, which was necessary to avoid causing
 13 disruption to the customers’ ability to grow and operate their networks,---facts which would
 14 conflict with what a reasonable investor would understand from the statement itself.

15 **(ii) Scienter**

16 174. Berger knew, or was deliberately reckless in not knowing, that his statement was
 17 false and misleading because he knew of the preceding omitted, materially adverse facts
 18 undermining it (*e.g.*, that Extreme had no integration plan, particularly an underlying product
 19 roadmap, which was necessary to avoid causing disruption to customers’ business) and that it
 20 thus lacked a reasonable basis when made, due to his role as CEO overseeing a merger of
 21 equals, which was a core transaction for the Company. *See* Section VII.B., *infra*.

22 175. In addition, Berger’s compensation agreement contained a highly unusual feature
 23 wherein he would earn 300,000 Extreme stock options if the price of the Company stock
 24 increased to \$4.00 per share, another 300,000 options if the price increased to \$5.00 per share
 25 and another 300,000 options if the price increased to \$6.00 per share (and stayed above those
 26 price targets for 30 days). *See* Section VII.A., *infra*. This compensation package had the effect
 27 of providing Berger with strong incentives to make false and misleading statements about the
 28 success of the acquisition to inflate the price of Extreme stock and reach the target prices. *Id.*

(c) **Market Reactions to the Misstatements and Omissions**

176. The market reacted favorably to Defendants' statements above regarding their "plan" for the Enterasys integration and achievement of related synergies and Berger's assurance that the integration would not "disrupt" customers. As a result, Extreme's stock price increased 7%, by \$0.30 per share on 7.7 million shares traded, from \$4.03 per share at the close of trading on September 11, 2013 to \$4.33 per share at the close of trading on September 12, 2013.

177. On September 13, 2013, Craig-Hallum issued an analyst report that included a "Buy" rating and an increased price target, positively noting Kurtzweil's statements regarding Extreme's plan to achieve **"cost reductions of \$30-40 million in the 12-24 months following the [Enterasys] acquisition."** The report also repeated Berger's assurance that the integration would have **"no disruption to customers' businesses,"** highlighting it as a "key takeaway."

178. On September 17, 2013, Wedbush Securities upgraded its rating on Extreme from "neutral" to "outperform" "based on [its] view that the acquisition of Enterasys is immediately accretive and **offers potential upside from synergies,** leading to valuation which suggests upside from current levels." This analyst report further explained that its "upgrade is predicated on [its] belief that . . . (2) **we think the company will benefit from deal synergies,** including optimization of the supply chain and **the removal of duplicate cost structures."**

2. November 4, 2013 – Q1 2014 Earnings Call

179. On November 4, 2013, five days after the acquisition of Enterasys had been completed, Extreme issued a press release announcing its Q1 2014 financial results and its Q2 2014 guidance. Extreme announced that it generated revenues of \$75.9 million during Q1 2014, and expected revenue for Q2 2014 to be in the range of \$140 to \$155 million. The press release further stated that Chris Crowell, the former CEO of Enterasys, had been retained as the COO of Extreme, with direct responsibility for "sales and marketing."

(a) **Berger's Misstatement and Omissions**

180. Later that day, Extreme hosted a conference call with analysts to discuss the Company's financial results for Q1 2014 and Q2 2014 guidance. Berger and Kurtzweil

1 participated in this call, and Berger reiterated that the integration of Extreme and Enterasys was
 2 “*on track*” – *i.e.*, proceeding according to plan:

3 [T]he acquisition will double the size of the Company, in terms of revenues, and
 4 will be immediately accretive from an earnings standpoint....We began to focus
 5 on the integration of Extreme and Enterasys right after the announcement. We
 6 have made significant progress, including finalizing the top levels of executive
 7 management.... *Overall, our integration efforts are on track.*

8 (i) Falsity

9 181. Berger’s statement in the preceding paragraph that “[o]verall, our integration
 10 *efforts are on track*” was false and misleading because it created the strong impression that an
 11 integration plan against which progress could be objectively measured existed, when in fact there
 12 was no such plan, as demonstrated by the following: (1) the accounts of CWs 1, 2, 3, and 5 that
 13 Extreme lacked an integration plan, including a plan setting forth how the two salesforces would
 14 be integrated, a plan outlining other steps to cut costs and obtain integration synergies, a product
 15 roadmap for the combined Company, and a go-to-market strategy (*see* Section V.G., *supra*); (2)
 16 based on the accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to substantial
 17 integration problems from the beginning, including lost clients and client dissatisfaction with a
 18 salesforce that only understood half of the Company’s legacy products, and client dissatisfaction
 19 with the lack of a clear product roadmap, and a failure to correct personnel redundancies during
 20 the Class Period (*see* Section V.G., *supra*); (3) Meyercord admitted on September 14, 2016 that
 21 the Enterasys acquisition lacked such “integration planning,” including a “very clean and clear
 22 product and technology roadmap,” resulting in “a lot of integration issues” (*see* Section V.I.4.);
 23 (4) Meyercord announced on May 20-21, 2015 a “**new** operating plan,” including a “**new** go-to-
 24 market strategy” and a **new** cost-cutting measure of an 18% workforce reduction to save \$40
 25 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during
 26 the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created
 27 by the acquisition were not eliminated during the Class Period, and thereby showing that such
 28 cost-saving synergies were not achieved during the Class Period.

182. Berger's statement was false and misleading in omitting this lack of an integration plan and the other material, adverse facts regarding integration problems as discussed in the preceding paragraph, because it created a strong impression of a state of affairs (a carefully planned integration that was positively proceeding "on track" with such a plan) that differed in a material way from the one that actually existed.

(ii) Scienter

183. Berger knew, or was deliberately reckless in not knowing, that this statement was false and misleading because, according to CW3, he knew of the lack of an integration plan at this time based on his participation in quarterly sales calls after the acquisition where sales personnel questioned him about such a plan, including one such call held right after the acquisition where Berger replied that "we're formulating the integration plan," thus showing that the Company did not have a plan at that time. *See* ¶¶103-105, *supra*. Indeed, Berger was telling the salesforce that the integration plan, including the product roadmap for the combined Company, was still "TBD" as late as July/August of 2014, at the annual global sales conference in Las Vegas. *See* ¶104, *supra*. Berger also knew about the lack of an integration plan due to his role as CEO overseeing a merger of equals, which was a core transaction for the Company. *See* Section VII.B., *infra*.

184. In addition, Berger's compensation agreement contained a highly unusual feature wherein he would earn 300,000 Extreme stock options if the price of the Company stock increased to \$4.00 per share, another 300,000 options if the price increased to \$5.00 per share and another 300,000 options if the price increased to \$6.00 per share (and stayed above those price targets for 30 days). *See* Section VII.A., *infra*. This compensation package had the effect of providing Berger strong incentives to make false and misleading statements about the success of the acquisition to inflate the price of Extreme stock and reach the target prices. *Id.*

(b) Kurtzweil's Misstatement and Omissions

185. During the November 4, 2013 call, Kurtzweil also discussed Extreme's "plan" for the Enterasys integration synergies coming to fruition over a 12 to 24 month period, resulting in a substantial positive impact on Extreme's revenues: "*When we have fully integrated the two*

1 *teams, we plan to reduce product costs and operating expenses between \$30 million to \$40*
 2 *million. We expect to realize these synergies over a 12- to 24-month period. The timing of the*
 3 *synergies will be seen in the financials* in a small way in the third fiscal quarter and *will hit full*
 4 *stride in 12 to 15 months from now.”*

5 (i) **Falsity**

6 186. Kurtzweil’s statement in the preceding paragraph was false and misleading
 7 because: (1) Extreme had no “plan” to achieve \$30-40 million in synergies, over a 12 to 24-
 8 month period or otherwise, or to “fully integrate[] the two Teams” given the accounts of CWs 1,
 9 2, 3, and 5 that Extreme lacked an integration plan, including a plan setting forth how the two
 10 salesforces would be integrated, a plan outlining other steps to cut costs and obtain integration
 11 synergies, a product roadmap for the combined Company, and a go-to-market strategy (see
 12 Section V.G., *supra*); (2) based on the accounts of CWs 1, 2, 3, 4, and 5, the lack of an
 13 integration plan led to substantial integration problems from the beginning, including lost clients
 14 and client dissatisfaction with a salesforce that only understood half of the Company’s legacy
 15 products, and client dissatisfaction with the lack of a clear product roadmap, and a failure to
 16 correct personnel redundancies during the Class Period (see Section V.G., *supra*); (3) Meyercord
 17 admitted on September 14, 2016 that the Enterasys acquisition lacked such “integration
 18 planning,” including a “very clean and clear product and technology roadmap,” resulting in “a lot
 19 of integration issues” (see Section V.I.4.); (4) Meyercord announced on May 20-21, 2015 a “**new**
 20 operating plan,” including a “**new** go-to-market strategy” and a **new** cost-cutting measure of an
 21 18% workforce reduction to save \$40 million, supporting the statements of CWs 1, 2, 3, and 5
 22 that there was no such prior plan during the Class Period and the statements of CWs 1, 2, 3 and 4
 23 that the employee redundancies created by the acquisition were not eliminated during the Class
 24 Period, and thereby showing that such cost-saving synergies were not achieved during the Class
 25 Period.

26 187. Kurtzweil’s statement was false and misleading in omitting the preceding
 27 material, adverse facts, because it created a strong impression of a state of affairs (a carefully
 28

1 planned integration that was reasonably likely to generate the \$30-40 million in synergies by the
2 timeframe specified) that differed in a material way from the one that actually existed.

3 188. To the extent the statement conveyed Kurtzweil's opinion, it was misleading
4 because it lacked a reasonable basis and omitted Extreme's lack of an integration plan, including
5 the related components discussed above—facts which would conflict with what a reasonable
6 investor would understand from the statement itself.

7 **(ii) Scierter**

8 189. As CFO, Kurtzweil knew, or was deliberately reckless in not knowing, that his
9 statement was false and misleading because he knew, based on his participation in quarterly sales
10 calls where such matters were discussed (*see* ¶¶103-105, *supra*), that Extreme had no integration
11 plan, including for how the Company would achieve \$30 million to \$40 million in synergies in a
12 12 to 24-month period or fully integrate the salesforces, which undermined his statement. *See*
13 Sections V.G. & V.I., *supra*. For example, according to CW3, there was one such call held right
14 after the acquisition where sales personnel questioned Berger about such a plan, and replied that
15 “we’re formulating the integration plan,” thus showing that the Company did not have a plan at
16 that time. *See* ¶105, *supra*. Kurtzweil also knew about the lack of plans due to his role as CFO
17 overseeing a merger of equals, which was a core transaction for the Company, particularly given
18 that, according to analysts, he had “been a major factor in driving most of the Enterasys
19 integration,” as noted above (¶136). *See* Section VII.B., *infra*.

20 **(c) Market Reactions to the Misstatements and Omissions**

21 190. The market reacted favorably to Defendants' misstatements regarding the “on
22 track” progress of the Enterasys integration and expected synergies with a positive impact on
23 Extreme's revenues. On November 4, 2013, after the release of the Company's financial results
24 and its earnings call, Extreme's stock closed at \$6.30 per share on 8.9 million shares traded,
25 rising almost 17% or \$0.92 per share from the prior trading day's closing price of \$5.38 per share
26 on 1.9 million shares traded.

27 191. Analysts also reacted positively to Defendants' misstatements. For example, a
28 Craig-Hallum report issued on November 5, 2013 reiterated its “buy” rating on Extreme, stating:

1 “Over the next 24 months management **plans to realize synergies of \$30-\$40 million** which we
2 believe will be driven by 200-300bp [basis points] of gross margin improvement from improved
3 purchasing scale and the remainder through headcount reductions as the combined workforce is
4 right-sized.”

5 192. Similarly, a November 5, 2013 Wedbush Securities report maintained its
6 “outperform” rating on Extreme “based on [its] view that the recently closed acquisition of
7 Enterasys is immediately accretive, offers upside from synergies and the potential contribution
8 from partnerships.”

9 193. Further, a follow-up Wedbush Securities report published on November 6, 2013
10 spoke positively regarding Extreme’s ability to improve margins and revenues based on the
11 Enterasys acquisition: “Initial **synergies** to begin in December, with potential for better-than-
12 expected [gross margin] long term. . . . [F]urther management due diligence of Enterasys has
13 uncovered additional areas for improvement which have the potential to add another 200-400
14 [basis points] to initial expectations.”

15 194. Moreover, after Extreme held a conference call to discuss the *pro forma* financials
16 following the acquisition of Enterasys on January 14, 2014, the market became even more
17 encouraged by Defendant’s assertions that it will achieve \$30 to \$40 million in cost-saving
18 synergies from the integration within 12-24 months from the acquisition. In an analyst report
19 published on January 14, 2014, Wedbush Securities maintained its “Outperform” rating “based
20 on [its] view that the acquisition of Enterasys is immediately accretive, potentially more than
21 anticipated and offers **upside from synergies and partnerships.**” Wedbush further stated, “**with**
22 **the acquisition complete, the stock will now trade on integration, capturing synergies** and
23 **guide [sic] rather than the first quarterly combined results. . . . Recall the company is looking to**
24 **extract \$30-40 [million] in synergies from the combined company over the next 24 months. . . .**
25 **The key takeaway is that there are not major changes to original assumptions.**”
26
27
28

1 **3. February 5, 2014 – Q2 2014 Press Release and Earnings Call – The**
 2 **Truth Partially Emerges but Defendants Continue to Mislead the**
 3 **Market**

4 **(a) Partial Corrective Disclosure and/or Materialization of the**
 5 **Risk**

6 195. On February 5, 2014, before the market opened, Extreme issued a press release
 7 that announced its Q2 2014 financial results and its Q3 2014 guidance. Extreme reported
 8 revenues of \$146.6 million for 2Q 2014, toward the low end of the guidance announced on
 9 November 4, 2013, and expected revenues of \$140 to \$155 million for Q3 2014, below the
 10 consensus estimates of \$154 million. Later that day, Extreme held a conference call with
 11 analysts to discuss its Q2 2014 financial results and guidance. During this call, Berger
 12 acknowledged that the Company had as yet “not seen significant evidence of revenue [due] to
 13 synergies.” Kurtzweil acknowledged that the Company’s guidance for the third quarter of 2014
 14 was “at the low end of the revenue guidance” compared to its third quarter of 2013. Kurtzweil
 15 further attributed the reason why the Company saw “North America as [the] weakest region” to
 16 the fact that it “is a tough market right now.” When the call was opened to questions, an analyst
 17 noted to the contrary that competitors in North America were doing “pretty decent,” were
 18 “flush,” and “one . . . actually had a good quarter,” and asked for the Company to explain “what
 19 you saw in North America that made it tough.” Berger answered: “I think for this, to keep this in
 20 perspective is, we have been in the middle of a turnaround of both our sales and marketing
 21 efforts at Legacy Extreme, and that was probably most pronounced -- the need for that was
 22 probably most pronounced in our North American organization.” Berger summarized by
 23 disclosing that the Company experienced not only “tough market conditions but also **some** self
 24 imposed issues” relating to the integration.

25 196. These disclosures and softer guidance for Q3 2014 were the first indication that
 26 Defendants’ statements regarding (a) the Company’s successful progress with the integration and
 27 (b) realization of cost-saving synergies by the third quarter of 2014, the first full quarter of the
 28 combined Company, were false and misleading. Due to this initial partial corrective disclosure
 and/or materialization of risk, at the close of trading on February 5, 2014, the price of Extreme’s

1 stock dropped 16%, from \$7.04 per share to \$5.92 per share on unusually high trading volume of
2 8.6 million shares.

3 **(b) Berger's Misstatement and Omissions**

4 197. However, in the midst of the lower guidance, Defendants continued to minimize
5 the emerging problems and falsely reassure investors that the integration was "*on track*" and had
6 "few surprises," with any integration issues "getting dramatically better." Specifically, in the
7 February 5, 2014 press release, Berger stated, "[o]ur *integration plans are on track*." On the
8 conference call, Berger similarly reassured investors that, with respect to "self imposed"
9 integration issues: "We see that getting dramatically better with a couple of things, the
10 combination of sales forces under the leadership of our now head of North American sales John
11 Fabiaschi, who came from Enterasys with strong performance there." Moreover, during the
12 February 5, 2014 earnings call, Berger also stated:

13 As significant, we delivered these numbers in the first quarter after closing the
14 acquisition. That we were able to forecast our financial performance accurately is
15 one of the many examples of how the integration of the two companies has gone
16 to date. Overall we have found few surprises since closing the acquisition
reflecting how well Chris Crowell now our Chief Operating Officer and his team
managed Enterasys for the past six years.

17 **(i) Falsity**

18 198. Berger's statement in the preceding paragraph that Extreme's "*integration plans*
19 *are on track*" was false and misleading because it specifically represented the existence of an
20 integration plan against which progress could be objectively measured, when in fact there was no
21 such plan, as demonstrated by the following: (1) the accounts of CWs 1, 2, 3, and 5 that Extreme
22 lacked an integration plan, including a plan setting forth how the two salesforces would be
23 integrated, a plan outlining other steps to cut costs and obtain integration synergies, a product
24 roadmap for the combined Company, and a go-to-market strategy (*see* Section V.G., *supra*); (2)
25 based on the accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to substantial
26 integration problems from the beginning, including lost clients and client dissatisfaction with a
27 salesforce that only understood half of the Company's legacy products, and client dissatisfaction
28 with the lack of a clear product roadmap, and a failure to correct personnel redundancies during

the Class Period (*see* Section V.G., *supra*); (3) Meyercord admitted on September 14, 2016 that the Enterasys acquisition lacked such “integration planning,” including a “very clean and clear product and technology roadmap,” resulting in “a lot of integration issues” (*see* Section V.I.4.); (4) Meyercord announced on May 20-21, 2015 a “**new** operating plan,” including a “**new** go-to-market strategy” and a **new** cost-cutting measure of an 18% workforce reduction to save \$40 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created by the acquisition were not eliminated during the Class Period, and thereby showing that such cost-saving synergies were not achieved during the Class Period.

199. Berger’s statement was false and misleading in omitting this lack of an integration plan and the other material, adverse facts regarding integration problems as discussed in the preceding paragraph, because it created a strong impression of a state of affairs (a carefully planned integration that was positively proceeding “on track” with such a plan) that differed in a material way from the one that actually existed.

(ii) Scienter

200. Berger knew, or was deliberately reckless in not knowing, that this statement was false and misleading because, according to CW3, he knew of the lack of an integration plan at this time based on his participation in quarterly sales calls after the acquisition where sales personnel questioned him about such a plan, including one such call held right after the acquisition where Berger replied that “we’re formulating the integration plan,” thus showing that the Company did not have a plan at that time. *See* ¶¶103-105, *supra*. Indeed, Berger was telling the salesforce that the integration plan, including the product roadmap for the combined Company, was still “TBD” as late as July/August of 2014, at the annual global sales conference in Las Vegas. *See* ¶104, *supra*. Berger also knew about the lack of an integration plan and related integration problems due to his role as CEO overseeing a merger of equals, which was a core transaction for the Company. *See* Section VII.B., *infra*.

201. Moreover, as noted above, Berger’s compensation agreement contained a highly unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the

1 Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See*
 2 Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of
 3 Extreme’s stock, including by making false and misleading statements about the success of the
 4 acquisition, in order to maintain or increase the value of his 900,000 options. Berger’s potential
 5 profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share)
 6 was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id.*

7 **(c) Market Reactions to the Misstatements and Omissions**

8 202. The market reacted unfavorably to the softer than expected guidance and the
 9 partial disclosures revealing that the integration was experiencing “some” initial setbacks.
 10 Nevertheless, the market was reassured by Defendants’ continued false and misleading
 11 statements minimizing the extent of the apparent issues and assuring that the integration was still
 12 “on track.” For example, on February 6, 2014, Wedbush Securities issued a report expressing
 13 disappointment, confirming its understanding that that “lower-than-expected revenue guidance
 14 reflects ongoing integration activities including training the sales force on both product lines”
 15 and “ongoing realignment of the legacy Extreme sales force”; accordingly, the report lowered its
 16 share price target for Extreme. However, the same analyst also maintained its positive
 17 “outperform” rating, echoing Defendants’ reassurances that synergies would be seen on a
 18 specific timeline, and that the integration efforts were “on track”:

19 With the acquisition complete, we believe the focus now turns to delivering on
 20 synergies, driving partner revenues and consistent execution. **Bottom line, there**
 21 **is no change to the story and the company remains on track to deliver on its**
 22 **stated goals over the next 12-24 months.**

23 ...

24 **Company outlines timeline and reiterates targeted synergies of \$30-40mn. . . .**
 25 Management noted that cross selling opportunities have begun, specifically in
 26 WLAN, and reaffirmed its targeted synergies of \$30-40mn.

27 203. A February 6, 2014 Craig-Hallum analyst report similarly stated: “Going forward
 28 management continues to expect to generate \$30-\$40M of synergies which should begin to show
 up in a small way in the coming quarter and hit full stride 12-15 months from now.”
 Accordingly, it concluded that “[m]ost importantly, the meaningful potential earnings power of
 the combined company remains intact even on only modest revenue growth.”

1 **4. May 6, 2014 – Q3 2014 Press Release and Earnings Call – The Truth**
 2 **Continues to Partially Emerge but Defendants Continue to Mislead**
 3 **the Market**

4 **(a) Partial Corrective Disclosure and/or Materialization of the**
 5 **Risk**

6 204. On May 6, 2014, Extreme released two press releases after trading hours. The
 7 first announced Company revenues of \$143.7 million for Q3 2014, the low end of the guidance
 8 given in February 2014, and expected revenues in the range of \$143 million to \$148 million for
 9 Q3 2014. These Q3 2014 announcements reported financial results for the first full quarter after
 10 the acquisition was completed, and the quarter in which management had told investors to expect
 11 to see the first positive impact of the integration on the Company’s financials. *See* ¶¶ 52-53,
 12 *supra*.

13 205. The press release also announced the transition of Kurtzweil from CFO to
 14 “special assistant to the CEO,” before his departure at the end of September 2014; and the hiring
 15 of Defendant Arola as CFO. Another press release, later the same day, announced the sudden
 16 and unexplained departure of Chris Crowell, Chief Operating Officer of Extreme and former
 17 Chief Executive Officer of Enterasys. This significant turnover in the executive leadership
 18 partially disclosed the falsity of Extreme’s prior statements touting the strength of integration
 19 efforts. *See* Section V.G.3, *supra*.

20 206. Later that day on May 6, 2014, Extreme hosted an earnings call on which Berger
 21 partially disclosed the truth that Extreme had experienced “**some**” problems with its salesforce
 22 integration efforts and that, as a result, he would be taking a more direct role in these efforts.
 23 Specifically, he stated, “[a]s we move on to the next phase of the integration I feel that it is
 24 critical that I stay close to our field organizations particularly in North America **where we have**
 25 **experienced some integration issues**. The field organizations and corporate marketing will
 26 report directly to me effectively today.”

27 207. As a result of this partial corrective disclosure that Extreme was experiencing
 28 integration issues and its resultant negative impact on the Company’s financial results, over the
 same quarter in which Defendants told investors to expect the benefits of the acquisition,

1 Extreme's stock fell more than 25%, dropping \$1.38 per share on unusually heavy trading
 2 volume of 9.3 million shares to \$3.95 per share by the close of trading the next day, May 7,
 3 2014.

4 (b) **Berger's Misstatement and Omissions in the May 6, 2014 Press**
 5 **Release**

6 208. However, Defendants continued to mislead the market by representing in the May
 7 6, 2014 press release and earnings call that, despite these integration issues and disappointing
 8 financial news, the Enterasys integration was still "ahead of plan" and would soon deliver the
 9 positive revenue impacts that Defendants had been assuring. Specifically, in the press release
 10 Berger stated, "[t]he integration efforts following the acquisition of Enterasys continue ahead
 11 of plan."

12 (i) **Falsity**

13 209. Berger's statement in the preceding paragraph that Extreme's "*integration efforts*
 14 *following the acquisition of Enterasys continue ahead of plan*" was false and misleading
 15 because it specifically represented the existence of an integration plan against which progress
 16 could be objectively measured, when in fact there was no such plan, as demonstrated by the
 17 following: (1) the accounts of CWs 1, 2, 3, and 5 that Extreme lacked an integration plan,
 18 including a plan setting forth how the two salesforces would be integrated, a plan outlining other
 19 steps to cut costs and obtain integration synergies, a product roadmap for the combined
 20 Company, and a go-to-market strategy (*see* Section V.G., *supra*); (2) based on the accounts of
 21 CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to substantial integration problems from
 22 the beginning, including lost clients and client dissatisfaction with a salesforce that only
 23 understood half of the Company's legacy products, and client dissatisfaction with the lack of a
 24 clear product roadmap, and a failure to correct personnel redundancies during the Class Period
 25 (*see* Section V.G., *supra*); (3) Meyercord admitted on September 14, 2016 that the Enterasys
 26 acquisition lacked such "integration planning," including a "very clean and clear product and
 27 technology roadmap," resulting in "a lot of integration issues" (*see* Section V.I.4.); (4)
 28 Meyercord announced on May 20-21, 2015 a "**new** operating plan," including a "**new** go-to-

1 market strategy” and a **new** cost-cutting measure of an 18% workforce reduction to save \$40
 2 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during
 3 the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created
 4 by the acquisition were not eliminated during the Class Period, and thereby showing that such
 5 cost-saving synergies were not achieved during the Class Period.

6 210. Berger’s statement was false and misleading in omitting this lack of an integration
 7 plan and the other material, adverse facts regarding integration problems as discussed in the
 8 preceding paragraph, because it created a strong impression of a state of affairs (a carefully
 9 planned integration that was positively proceeding “ahead of” such a “plan”) that differed in a
 10 material way from the one that actually existed.

11 **(ii) Scienter**

12 211. Berger knew, or was deliberately reckless in not knowing, that this statement was
 13 false and misleading because, according to CW3, he knew of the lack of an integration plan at
 14 this time based on his participation in quarterly sales calls after the acquisition where sales
 15 personnel questioned him about such a plan, thus showing that the Company did not have a plan
 16 at that time. *See* ¶¶103-105, *supra*. Indeed, Berger was telling the salesforce that the integration
 17 plan, including the product roadmap for the combined Company, was still “TBD” as late as
 18 July/August of 2014, at the annual global sales conference in Las Vegas. *See* ¶104, *supra*.
 19 Further, Berger knew about the lack of an integration plan to merge the salesforces and the
 20 resulting, ongoing salesforce integration problems at this time because of his then-recent
 21 conversation with CW1 in April 2014, wherein they discussed such issues, including the
 22 replacement or reassignment of legacy Extreme personnel based on legacy Enterasys executives’
 23 individual preferences—*i.e.*, subjective, *ad hoc* factors that were not tied to any past performance
 24 metrics—rather than according to a systematic plan. *See* ¶¶ 109, 122, & 125, *supra*. Berger also
 25 knew about the lack of an integration plan and related integration problems due to his role as
 26 CEO overseeing a merger of equals, which was a core transaction for the Company. *See* Section
 27 VII.B., *infra*.

212. Moreover, as noted above, Berger's compensation agreement contained a highly unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See* Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of Extreme's stock, including by making false and misleading statements about the success of the acquisition, in order to maintain or increase the value of his 900,000 options. Berger's potential profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share) was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id.*

(c) **Berger's "Integration ... Is On Track" Misstatement and Omissions on the May 6, 2014 Earnings Call**

213. Similarly, during the earnings call that day, Berger repeated that the "integration was still *"on track:"* *"Overall, the integration of the two companies* is going well and *is on track* or ahead of our expectations."

(i) **Falsity**

214. Berger's statement in the preceding paragraph that *"[o]verall, the integration of the two companies ... is on track"* was false and misleading because it created the strong impression that an integration plan against which progress could be objectively measured existed, when in fact there was no such plan, as demonstrated by the following: (1) the accounts of CWs 1, 2, 3, and 5 that Extreme lacked an integration plan, including a plan setting forth how the two salesforces would be integrated, a plan outlining other steps to cut costs and obtain integration synergies, a product roadmap for the combined Company, and a go-to-market strategy (*see* Section V.G., *supra*); (2) based on the accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to substantial integration problems from the beginning, including lost clients and client dissatisfaction with a salesforce that only understood half of the Company's legacy products, and client dissatisfaction with the lack of a clear product roadmap, and a failure to correct personnel redundancies during the Class Period (*see* Section V.G., *supra*); (3) Meyercord admitted on September 14, 2016 that the Enterasys acquisition lacked such "integration planning," including a "very clean and clear product and technology roadmap,"

resulting in “a lot of integration issues” (*see* Section V.I.4.); (4) Meyercord announced on May 20-21, 2015 a “**new** operating plan,” including a “**new** go-to-market strategy” and a **new** cost-cutting measure of an 18% workforce reduction to save \$40 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created by the acquisition were not eliminated during the Class Period, and thereby showing that such cost-saving synergies were not achieved during the Class Period.

215. Berger's statement was false and misleading in omitting this lack of an integration plan and the other material, adverse facts regarding integration problems as discussed in the preceding paragraph, because it created a strong impression of a state of affairs (a carefully planned integration that was positively proceeding "on track" with such a plan) that differed in a material way from the one that actually existed.

(ii) ScienTer

216. Berger knew, or was deliberately reckless in not knowing, that this statement was false and misleading because, according to CW3, he knew of the lack of an integration plan at this time based on his participation in quarterly sales calls after the acquisition where sales personnel questioned him about such a plan, thus showing that the Company did not have a plan at that time. *See* ¶¶103-105, *supra*. Indeed, Berger was telling the salesforce that the integration plan, including the product roadmap for the combined Company, was still “TBD” as late as July/August of 2014, at the annual global sales conference in Las Vegas. *See* ¶104, *supra*. Further, Berger knew about the lack of an integration plan to merge the salesforces and the resulting, ongoing salesforce integration problems at this time because of his then-recent conversation with CW1 in April 2014, wherein they discussed such issues, including the replacement or reassignment of legacy Extreme personnel based on legacy Enterasys executives’ individual preferences—*i.e.*, subjective, *ad hoc* factors that were not tied to any past performance metrics—rather than according to a systematic plan. *See* ¶¶ 109, 122, & 125, *supra*. Berger also knew about the lack of an integration plan and related integration problems due to his role as

1 CEO overseeing a merger of equals, which was a core transaction for the Company. *See* Section
2 VII.B., *infra*.

3 217. Moreover, as noted above, Berger's compensation agreement contained a highly
4 unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the
5 Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See*
6 Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of
7 Extreme's stock, including by making false and misleading statements about the success of the
8 acquisition, in order to maintain or increase the value of his 900,000 options. Berger's potential
9 profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share)
10 was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id*.

11 **(d) Berger's Integration "Synergies" Misstatement and Omissions**
12 **on the May 6, 2014 Earnings Call**

13 218. During the call, Berger further reassured that he was "*more confident than ever*"
14 of achieving the \$30 to \$40 million in integration synergies:

15 *[O]ur target for synergy savings as a result of the acquisition of Enterasys*
16 *continues to be in the range of \$30 million to \$40 million per year. We are more*
confident than ever that we will achieve at least that amount.

17 **(i) Falsity**

18 219. Berger's statement in the preceding paragraph, which asserted his "*confiden[ce]*"
19 in achieving the \$30-40 million in integration synergies, was false and misleading because it
20 created the strong impression of the existence of an integration plan, including specifically a plan
21 to achieve such synergies, against which progress could be objectively measured, when in fact
22 there was no such plan, as demonstrated by the following: (1) the accounts of CWs 1, 2, 3, and 5
23 that Extreme lacked an integration plan, including a plan setting forth how the two salesforces
24 would be integrated, a plan outlining other steps to cut costs and obtain integration synergies, a
25 product roadmap for the combined Company, and a go-to-market strategy (*see* Section V.G.,
26 *supra*); (2) based on the accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to
27 substantial integration problems from the beginning, including lost clients and client
28 dissatisfaction with a salesforce that only understood half of the Company's legacy products, and

client dissatisfaction with the lack of a clear product roadmap, and a failure to correct personnel redundancies during the Class Period (*see* Section V.G., *supra*); (3) Meyercord admitted on September 14, 2016 that the Enterasys acquisition lacked such “integration planning,” including a “very clean and clear product and technology roadmap,” resulting in “a lot of integration issues” (*see* Section V.I.4.); (4) Meyercord announced on May 20-21, 2015 a “**new** operating plan,” including a “**new** go-to-market strategy” and a **new** cost-cutting measure of an 18% workforce reduction to save \$40 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created by the acquisition were not eliminated during the Class Period, and thereby showing that such cost-saving synergies were not achieved during the Class Period.

220. Berger’s statement was false and misleading in omitting the preceding material, adverse facts because it created a strong impression of a state of affairs (a carefully planned integration that was reasonably likely to generate the \$30-40 million in synergies by the timeframe specified) that differed in a material way from the one that actually existed.

221. To the extent the statement conveyed Berger’s opinion, it was misleading because it lacked a reasonable basis and omitted Extreme’s lack of an integration plan, including the related components discussed above, and the ongoing integration problems that Extreme was still experiencing (particularly, the continuing employee redundancies that undermined the achievement of cost-saving synergies)—facts which would conflict with what a reasonable investor would understand from the statement itself.

(ii) **Scienter**

222. Berger knew, or was deliberately reckless in not knowing, that this statement was false and misleading because, according to CW3, he knew of the lack of an integration plan at this time based on his participation in quarterly sales calls after the acquisition where sales personnel questioned him about such a plan, thus showing that the Company did not have a plan at that time. *See* ¶¶103-105, *supra*. Indeed, Berger was telling the salesforce that the integration plan, including notably the plan to achieve integration synergies, was still “TBD” as late as

July/August of 2014, at the annual global sales conference in Las Vegas. *See* ¶104, *supra*. Further, Berger knew about the lack of an integration plan to merge the salesforces and the resulting, ongoing salesforce integration problems at this time based on his then-recent conversation with CW1 in April 2014, wherein they discussed such issues, including the replacement or reassignment of legacy Extreme personnel based on legacy Enterasys executives' individual preferences—*i.e.*, subjective, *ad hoc* factors that were not tied to any past performance metrics—rather than according to a systematic plan. *See* ¶¶ 109, 122, & 125, *supra*. Berger also knew about the lack of an integration plan and related integration problems due to his role as CEO overseeing a merger of equals, which was a core transaction for the Company. *See* Section VII.B., *infra*.

223. Moreover, as noted above, Berger's compensation agreement contained a highly unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See* Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of Extreme's stock, including by making false and misleading statements about the success of the acquisition, in order to maintain or increase the value of his 900,000 options. Berger's potential profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share) was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id.*

(e) Market Reactions to the Misstatements and Omissions

224. The market recognized and reacted unfavorably to Defendants' partial disclosure of the truth regarding the Enterasys integration efforts. For example, a May 7, 2014 Wunderlich Securities analyst report commented as follows:

Challenges of combining like-size companies impacted Extreme (EXTR) F3Q14 results and outlook with the Americas team lagging behind integration in other regions. **Because of this, the COO has recently left the company and CEO Chuck Berger will run sales for the time being; a new CFO has been recruited to operate from headquarters.**...Management was most disappointed in Americas, for which the integration of the Extreme and Enterasys sales forces is taking longer.

1 However, Wunderlich Securities was reassured by Defendants' continued misstatements
 2 regarding the progress of the integration, maintaining its "Buy" rating and price target and
 3 stating, for example, that "[w]e believe the company is **ahead of plan or on plan** with regard to
 4 integration of everything but Americas sales."

5 225. Similarly, Craig-Hallum issued a report on May 7, 2014 report maintaining its
 6 "Buy" rating and stating, "[a]lthough **Extreme Networks has experienced some hiccups**
 7 **integrating two equal sized companies, management remains confident in its ability to find**
 8 **\$30-\$40 million in synergies**. We expect synergies to begin to be seen once the company can
 9 consolidate its ERP systems which is expected to occur during the September quarter."

10 226. Subsequently, the market continued to be misled by Defendants' false
 11 reassurances that early problems with integration had been resolved and the integration was
 12 progressing well. For example, on July 2, 2014, Wunderlich Securities issued an analyst report
 13 entitled "Extreme Networks, Inc. (EXTR: \$4.45): It's Getting Fixed – Buy SDN Strategy
 14 Beginning to Emerge with R&D Synergies." Wunderlich reported:

15 After 6+ months of discovering integration challenges and disappointment, we
 16 believe Extreme (EXTR) is beginning to execute....We believe the sales force
 17 disruption that was the primary factor in disappointing results **[is] on the**
 18 **mend....**

19 **Discovery phase complete, now things are getting fixed.** We expect improving
 20 outlook for sales force productivity. Our understanding is that since the CEO took
 21 over sales force management in early May, conflicts that handicapped the
 22 Extreme side of the U.S. sales force and distribution network have been
 23 identified, have progressed toward resolution, and that cross-selling product lines
 24 of the constituent operations has begun to occur.

25 ...

26 **Transitioning from discovery to resolution.** The first six months of the
 27 November 1 acquisition, Enterasys included a significant amount of discovery, as
 28 with any purchase, but when it involves an operation of comparable size to the
 acquirer, the magnitude of the discoveries can be disruptive, as has been the case
 for Extreme. **We believe the discovery phase for resolving operational**
integration and synergies is now largely behind the company with the key
milestone of resolving conflict between Enterasys and Extreme sales and
channel practices having been solved in recent weeks. In addition to improved
 execution, we expect the basis for future guidance to be much firmer.

...

Up to now, synergies have been theoretical based on 70%+ functional overlap between product lines of the two constituent companies. **Now we are beginning to see signs of implementation goals. Management continues to assert the goal of achieving \$30 million to \$40 million in cost reductions from synergies with the November Enterasys acquisition, but these are across the company.**

...

We expect tangible signs of execution to yield multiple expansion, especially once the market gains conviction that the likelihood of negative surprises is diminished.

5. July 21, 2014 – Press Release

(a) Berger’s Misstatement and Omissions

227. On July 21, 2014, Extreme issued a press release and announced higher guidance for 4Q 2014, just two weeks before its official 4Q 2014 financial results would be released. In the press release, Extreme reported that it expected non-GAAP revenues in the range of \$154 to \$156 million, as compared to its prior guidance of \$145 to \$150 million. Berger reiterated that “*[o]ur integration remains ahead of plan* as we continue to execute against key Company operational and financial milestones, including successfully completing our ERP integration in early July, two months ahead of schedule.”

(i) Falsity

228. Berger’s statement in the preceding paragraph that “*[o]ur integration remains ahead of plan*” was false and misleading because it specifically represented the existence of an integration plan against which progress could be objectively measured, when in fact there was no such plan, as demonstrated by the following: (1) the accounts of CWs 1, 2, 3, and 5 that Extreme lacked an integration plan, including a plan setting forth how the two salesforces would be integrated, a plan outlining other steps to cut costs and obtain integration synergies, a product roadmap for the combined Company, and a go-to-market strategy (*see* Section V.G., *supra*); (2) based on the accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to substantial integration problems from the beginning, including lost clients and client dissatisfaction with a salesforce that only understood half of the Company’s legacy products, and client dissatisfaction with the lack of a clear product roadmap, and a failure to correct personnel redundancies during the Class Period (*see* Section V.G., *supra*); (3) Meyercord admitted on September 14, 2016 that

the Enterasys acquisition lacked such “integration planning,” including a “very clean and clear product and technology roadmap,” resulting in “a lot of integration issues” (*see* Section V.I.4.); (4) Meyercord announced on May 20-21, 2015 a “**new** operating plan,” including a “**new** go-to-market strategy” and a **new** cost-cutting measure of an 18% workforce reduction to save \$40 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created by the acquisition were not eliminated during the Class Period, and thereby showing that such cost-saving synergies were not achieved during the Class Period.

229. Berger's statement was false and misleading in omitting this lack of an integration plan and the other material, adverse facts regarding integration problems as discussed in the preceding paragraph, because it created a strong impression of a state of affairs (a carefully planned integration that was positively proceeding "ahead of" such a "plan") that differed in a material way from the one that actually existed.

(ii) Scientist

230. Berger knew, or was deliberately reckless in not knowing, that this statement was false and misleading because, according to CW3, he knew of the lack of an integration plan at this time based on his participation in quarterly sales calls after the acquisition where sales personnel questioned him about such a plan, thus showing that the Company did not have a plan at that time. *See* ¶¶103-105, *supra*. Indeed, Berger was telling the salesforce that the integration plan, including the product roadmap for the combined Company, was still “TBD” as late as July/August of 2014, at the annual global sales conference in Las Vegas, which took place around this time. *See* ¶104, *supra*. Further, Berger knew about the lack of an integration plan to merge the salesforces and the resulting, ongoing salesforce integration problems at this time based on his then-recent conversation with CW1 in April 2014, wherein they discussed such issues, including the replacement or reassignment of legacy Extreme personnel based on legacy Enterasys executives’ individual preferences—*i.e.*, subjective, *ad hoc* factors that were not tied to any past performance metrics—rather than according to a systematic plan. *See* ¶¶ 109, 122, & 125, *supra*. Berger also knew about the lack of an integration plan and related integration

1 problems due to his role as CEO overseeing a merger of equals, which was a core transaction for
 2 the Company. *See* Section VII.B., *infra*. Further, Berger was then serving as the **acting head of**
 3 **Sales** following Crowell’s departure in May 2014, directly overseeing the salesforce and related
 4 integration efforts, and thus had direct access to the lack of an integration plan and the related,
 5 persisting salesforce integration problems. *See* ¶¶ 135-138, 141, 405-409.

6 231. Moreover, as noted above, Berger’s compensation agreement contained a highly
 7 unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the
 8 Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See*
 9 Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of
 10 Extreme’s stock, including by making false and misleading statements about the success of the
 11 acquisition, in order to maintain or increase the value of his 900,000 options. Berger’s potential
 12 profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share)
 13 was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id.*

14 **(b) Market Reactions to the Misstatements and Omissions**

15 232. The market reacted favorably to Berger’s false reassurance that the integration
 16 was “ahead of plan.” On July 21, 2014, after the press release was issued, Extreme’s stock
 17 increased by 15% and closed at \$5.06 per share on 9.9 million shares, up from a close of \$4.37
 18 per share on over 980,000 shares traded on the previous trading day.

19 233. This July 21, 2014 press release also reassured analysts that although Extreme hit
 20 integration setbacks in Q3 2014, repairing these problems now proceeded “ahead of plan.” For
 21 example, on July 22, 2014, Craig-Hallum issued an analyst report, which maintained its positive
 22 “Buy” rating and raised its price target, echoing Berger’s reassuring statements: “We are also
 23 **encouraged that the company’s integration efforts are ahead of plan. . . .**”

24 234. Likewise, Wunderlich Securities published an analyst report the same day stating
 25 that the Company’s earnings exceeded guidance and its statements concerning Enterasys
 26 integration helped to reassure investors. The report also implied that the departures of Crowell
 27 and Kurtzweil were involuntary and related to problems with the Enterasys integration efforts:

28 The worry about the June quarter was **dysfunction** within the North American
 sales force, which **cost some management jobs; repair is now confirmed to be**

1 **well underway with better than previously expected volume.** With
 2 expectations for the company to field full strength for more than a few weeks in
 the current quarter, we expect guidance to support our unchanged F1Q15 forecast.

3 **6. August 14, 2014 – Q4 2014 Press Release and Earnings Call**

4 **(a) Berger’s Salesforce Integration “Complete” Misstatement and**
 5 **Omissions in the August 14, 2014 Press Release**

6 235. On August 14, 2014, Extreme issued a press release and announced revenues of
 7 \$156.87 million for Q4 2014 and expected revenue in the range of \$150 to \$155 million for Q1
 8 2015. In the press release, Berger touted that the integration of the two companies’ salesforces
 9 was now “complete”: “***Our sales force integration is complete***, with all territories rationalized,
 10 and the team is aligned and executing, which is evident in this quarter’s results....”

11 **(i) Falsity**

12 236. Berger’s statement that the salesforce integration was “complete” as of August 14,
 13 2014 was false and misleading because: (1) Berger admitted just two months later, on October
 14 15, 2014, the salesforce integration was only “**nearly** completed,” and thus still not complete at
 15 that time, and therefore could not have been complete on August 14, 2014; (2) Berger later
 16 admitted that the salesforce integration was **still** not complete as of January 28, 2015, and thus
 17 could not have been complete on August 14, 2014; (3) CWs described persisting salesforce
 18 integration issues (including employee redundancies and overlap on client accounts as well as
 19 the *ad hoc* assignment of legacy employees from one company to the products and clients of the
 20 other, which they did not understand) throughout the Class Period, including **after** August 14,
 21 2014, thus showing that the salesforce integration was still not complete at this time; (4) Extreme
 22 hired Jeff White as CRO to head the salesforce, including to manage the continuing salesforce
 23 integration efforts, on October 1, 2014, further showing that the integration could not have been
 24 completed in August; (5) CW3 confirmed that Berger and the Board internally touted White’s
 25 hiring in October 2014 as intended to fix the salesforce integration problems that still existed as
 26 of that time, further evidencing that the salesforce integration was not complete earlier in August
 27 (see ¶¶ 112, 141, 144, *supra*); and (6) CW3 further stated the salesforce integration still was not
 28 complete even as late as 2015, including based on White’s global salesforce call in early 2015

1 wherein he described severe salesforce integration problems that still existed as of that time and
 2 which, according to CW3, continued until the end of the Class Period on April 9, 2015, when
 3 White abruptly departed after failing to address the integration problems (*see* ¶ 144, *supra*).

4 237. Berger’s statement was false and misleading in omitting the preceding material,
 5 adverse facts regarding the persisting salesforce integration problems and the lack of integration
 6 plan, including specifically a plan to merge the two salesforces, because it created a strong
 7 impression of a state of affairs (a carefully planned integration that was now successfully
 8 completed) that differed in a material way from the one that actually existed.

9 (ii) **Scienter**

10 238. Berger knew, or was deliberately reckless in not knowing, that this statement was
 11 false and misleading because Berger knew about the lack of an integration plan to merge the
 12 salesforces and the resulting, ongoing salesforce integration problems at this time, which
 13 prevented the salesforce integration from being complete, based on his conversation with CW1
 14 in April 2014, wherein they discussed such issues, including the replacement or reassignment of
 15 legacy Extreme personnel based on legacy Enterasys executives’ individual preferences—*i.e.*,
 16 subjective, *ad hoc* factors that were not tied to any past performance metrics—rather than
 17 according to a systematic plan. *See* ¶¶ 109, 122, & 125, *supra*. Further, according to CW3,
 18 Berger knew that the salesforce was still not completely integrated only two weeks before this
 19 statement, at Extreme’s 2014 global sales conference in Las Vegas that Berger led, because sales
 20 personnel there questioned Berger about the lack of a plan to integrate the two companies. *See*
 21 ¶¶ 104 & 110, *supra*. Moreover, Berger acknowledged at this Las Vegas meeting that the
 22 salesforce integration was still not complete, that it still needed a plan, and that the plan was still
 23 “TBD.” *See* ¶ 104, *supra*. Berger also knew about the lack of an integration plan and related
 24 integration problems due to his role as CEO overseeing a merger of equals, which was a core
 25 transaction for the Company. *See* Section VII.B., *infra*. Further, Berger was then serving as the
 26 **acting head of Sales** following Crowell’s departure in May 2014, directly overseeing the
 27 salesforce and related integration efforts, and thus had direct access to the lack of an integration
 28 plan and the related, persisting salesforce integration problems that prevented it from being

complete. *See* ¶¶ 135-138, 141, 405-409. Indeed, Berger admitted at the time of his statements on this August 14, 2014 call that he had been closely involved in the salesforce integration since May 2014. *See* ¶ 407, *infra*.

239. Moreover, as noted above, Berger's compensation agreement contained a highly unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See* Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of Extreme's stock, including by making false and misleading statements about the success of the acquisition, in order to maintain or increase the value of his 900,000 options. Berger's potential profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share) was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id.*

(b) Berger's Integration "Plan" Misstatement and Omissions on the August 14, 2014 Earnings Call

240. On the same day, Extreme hosted an earnings call with analysts to discuss its results for Q4 2014. Berger and Arola participated in this call with the analysts. During the earnings call, Berger again highlighted the successful integration progress to date: ***"Overall, we are exactly where we planned to be in integration process and the realization of the related financial synergies...."***

(i) Falsity

241. Berger's statement in the preceding paragraph that Extreme was ***"exactly where we planned to be in integration process and the realization of the related financial synergies"*** was false and misleading because it specifically represented the existence of an integration plan against which progress could be objectively measured, when in fact there was no such plan, as demonstrated by the following: (1) the accounts of CWs 1, 2, 3, and 5 that Extreme lacked an integration plan, including a plan setting forth how the two salesforces would be integrated, a plan outlining other steps to cut costs and obtain integration synergies, a product roadmap for the combined Company, and a go-to-market strategy (*see* Section V.G., *supra*); (2) based on the accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to substantial integration

problems from the beginning, including lost clients and client dissatisfaction with a salesforce that only understood half of the Company's legacy products, and client dissatisfaction with the lack of a clear product roadmap, and a failure to correct personnel redundancies during the Class Period (*see* Section V.G., *supra*); (3) Meyercord admitted on September 14, 2016 that the Enterasys acquisition lacked such "integration planning," including a "very clean and clear product and technology roadmap," resulting in "a lot of integration issues" (*see* Section V.I.4.); (4) Meyercord announced on May 20-21, 2015 a "**new** operating plan," including a "**new** go-to-market strategy" and a **new** cost-cutting measure of an 18% workforce reduction to save \$40 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created by the acquisition were not eliminated during the Class Period, and thereby showing that such cost-saving synergies were not achieved during the Class Period.

242. Berger's statement was false and misleading in omitting this lack of an integration plan and the other material, adverse facts regarding integration problems as discussed in the preceding paragraph, because it created a strong impression of a state of affairs (a carefully planned integration that was positively proceeding according to such a "plan") that differed in a material way from the one that actually existed.

(ii) Scien

243. Berger knew, or was deliberately reckless in not knowing, that this statement was false and misleading because, according to CW3, he knew of the lack of an integration plan at this time based on his participation in quarterly sales calls after the acquisition where sales personnel questioned him about such a plan, thus showing that the Company did not have a plan at that time. *See* ¶¶103-105, *supra*. Indeed, Berger was telling the salesforce that the integration plan, including the product roadmap for the combined Company and the plan to achieve integration synergies, was still “TBD” just two weeks earlier, at the annual global sales conference in Las Vegas. *See* ¶104, *supra*. Further, Berger knew about the lack of an integration plan to merge the salesforces and the resulting, ongoing salesforce integration problems at this time based on his conversation with CW1 in April 2014, wherein they discussed

1 such issues, including the replacement or reassignment of legacy Extreme personnel based on
 2 legacy Enterasys executives' individual preferences—*i.e.*, subjective, *ad hoc* factors that were
 3 not tied to any past performance metrics—rather than according to a systematic plan. *See* ¶¶
 4 109, 122, & 125, *supra*. Berger also knew about the lack of an integration plan and related
 5 integration problems due to his role as CEO overseeing a merger of equals, which was a core
 6 transaction for the Company. *See* Section VII.B., *infra*. Further, Berger was then serving as the
 7 **acting head of Sales** following Crowell's departure in May 2014, directly overseeing the
 8 salesforce and related integration efforts, and thus had direct access to the lack of an integration
 9 plan and the related, persisting salesforce integration problems. *See* ¶¶ 135-138, 141, 405-409.
 10 Indeed, Berger admitted at the time of his statements on this August 14, 2014 call that he had
 11 been closely involved in the salesforce integration since May 2014. *See* ¶ 407, *infra*.

12 244. Moreover, as noted above, Berger's compensation agreement contained a highly
 13 unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the
 14 Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See*
 15 Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of
 16 Extreme's stock, including by making false and misleading statements about the success of the
 17 acquisition, in order to maintain or increase the value of his 900,000 options. Berger's potential
 18 profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share)
 19 was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id.*

20 (c) **Berger's Synergies "On Track" Misstatement and Omissions**
 21 **on the August 14, 2014 Earnings Call**

22 245. During the call, Berger also assured: "We completed major elements of the
 23 integration of Enterasys and ***are on track to realize the synergies we have committed to.***"

24 (i) **Falsity**

25 246. Berger's statement in the preceding paragraph that Extreme was "***on track***" to
 26 deliver the "***committed***" integration synergies was false and misleading because it created the
 27 strong impression of the existence of an integration plan against which progress could be
 28 objectively measured, including a plan setting forth how the two salesforces would be integrated

1 personnel questioned him about such a plan, thus showing that the Company did not have a plan
 2 at that time. *See* ¶¶103-105, *supra*. Indeed, Berger was telling the salesforce that the integration
 3 plan, including the product roadmap for the combined Company and the plan to achieve
 4 integration synergies, was still “TBD” just two weeks earlier, at the annual global sales
 5 conference in Las Vegas. *See* ¶104, *supra*. Further, Berger knew about the lack of an
 6 integration plan to merge the salesforces and the resulting, ongoing salesforce integration
 7 problems at this time based on his conversation with CW1 in April 2014, wherein they discussed
 8 such issues, including the replacement or reassignment of legacy Extreme personnel based on
 9 legacy Enterasys executives’ individual preferences—*i.e.*, subjective, *ad hoc* factors that were
 10 not tied to any past performance metrics—rather than according to a systematic plan. *See* ¶¶
 11 109, 122, & 125, *supra*. Berger also knew about the lack of an integration plan and related
 12 integration problems due to his role as CEO overseeing a merger of equals, which was a core
 13 transaction for the Company. *See* Section VII.B., *infra*. Further, Berger was then serving as the
 14 **acting head of Sales** following Crowell’s departure in May 2014, directly overseeing the
 15 salesforce and related integration efforts, and thus had direct access to the lack of an integration
 16 plan and the related, persisting salesforce integration problems. *See* ¶¶ 135-138, 141, 405-409.
 17 Indeed, Berger admitted at the time of his statements on this August 14, 2014 call that he had
 18 been closely involved in the salesforce integration since May 2014. *See* ¶ 407, *infra*.

19 249. Moreover, as noted above, Berger’s compensation agreement contained a highly
 20 unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the
 21 Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See*
 22 Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of
 23 Extreme’s stock, including by making false and misleading statements about the success of the
 24 acquisition, in order to maintain or increase the value of his 900,000 options. Berger’s potential
 25 profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share)
 26 was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id.*

(d) **Arola’s Synergies “On Track” Misstatement and Omissions on the August 14, 2014 Earnings Call**

250. During the earnings call, Arola also made statements that Extreme was still “*on track*” to deliver the integration synergies of \$30 to \$40 million:

In Q4, we realized our target \$5 million to \$6 million in savings relating to cost reduction efforts in both cost of goods sold and operating expenses... *[W]e remain on track to deliver the synergies of \$30 million to \$40 million annually...*

(i) **Falsity**

251. Arola’s statement in the preceding paragraph that Extreme “*remain[ed] on track to deliver the synergies of \$40 to 40 million*” was false and misleading because it created the strong impression of the existence of an integration plan against which progress could be objectively measured, including a plan setting forth how the two salesforces would be integrated and other steps to cut costs and obtain synergies, when in fact there was no such plan, as demonstrated by the following: (1) the accounts of CWs 1, 2, 3, and 5 that Extreme lacked an integration plan, including a plan setting forth how the two salesforces would be integrated, a plan outlining other steps to cut costs and obtain integration synergies, a product roadmap for the combined Company, and a go-to-market strategy (*see* Section V.G., *supra*); (2) based on the accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to substantial integration problems from the beginning, including lost clients and client dissatisfaction with a salesforce that only understood half of the Company’s legacy products, and client dissatisfaction with the lack of a clear product roadmap, and a failure to correct personnel redundancies during the Class Period (*see* Section V.G., *supra*); (3) Meyercord admitted on September 14, 2016 that the Enterasys acquisition lacked such “integration planning,” including a “very clean and clear product and technology roadmap,” resulting in “a lot of integration issues” (*see* Section V.I.4.); (4) Meyercord announced on May 20-21, 2015 a “**new** operating plan,” including a “**new** go-to-market strategy” and a **new** cost-cutting measure of an 18% workforce reduction to save \$40 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created

1 by the acquisition were not eliminated during the Class Period, and thereby showing that such
2 cost-saving synergies were not achieved during the Class Period.

3 252. Arola's statement was false and misleading in omitting this lack of an integration
4 plan and the other material, adverse facts regarding integration problems as discussed in the
5 preceding paragraph, because it created a strong impression of a state of affairs (a carefully
6 planned integration that was positively proceeding "on track" with such a plan and was
7 reasonably likely to generate the \$30-40 million in synergies) that differed in a material way
8 from the one that actually existed.

9 (ii) **Scienter**

10 253. As CFO, Arola knew, or was deliberately reckless in not knowing, that his
11 statement was false and misleading because he knew, based on his position as well as attendance
12 at quarterly sales meetings and the 2014 annual global sales conference in Las Vegas just two
13 weeks earlier, where such matters were openly discussed, that Extreme had no integration plan,
14 including a plan for how the Company would achieve \$30 million to \$40 million in synergies,
15 which undermined his statements. *See* Sections V.G. & V.I., *supra*. Moreover, Arola observed
16 Berger acknowledge at this Las Vegas meeting that the salesforce integration was still not
17 complete, that it still needed a plan, including a plan to achieve integration synergies, and that
18 the plan was still "TBD." *Id.* Arola also knew about the lack of an integration plan and related
19 integration problems due to his role as CFO overseeing a merger of equals, which was a core
20 transaction for the Company. *See* Section VII.B., *infra*.

21 (e) **Arola's "Fully Integrated" Misstatement and Omissions on the**
22 **August 14, 2014 Earnings Call**

23 254. On the same call, Arola also stated that the companies were "*now fully*
24 *integrated*," including specifically with regard to the salesforces and the product portfolio:

25 While we remain on track to deliver the synergies of \$30 million to \$40 million
26 annually we will not be breaking these out going forward, due principally to *the*
27 *fact that the two companies are now fully integrated*, and going forward, the
efforts to separate normal ongoing cost-cutting activities from execution of
synergies will be difficult.

28 ...

Also, *with integrated product portfolio*, consolidated supply chain operations, *and fully integrated sales and marketing teams*, we expect to be seeing operational efficiencies as we move through the fiscal year.

(i) **Falsity**

255. Arola's statement that "*the two companies were now fully integrated*," including specifically the salesforces and the product portfolios, as of August 14, 2014 was false and misleading because: (1) Berger admitted just two months later, on October 15, 2014, the salesforce integration was only "**nearly** completed," and thus still not complete at that time, and therefore could not have been complete on August 14, 2014; (2) Berger later admitted that the salesforce integration was **still** not complete as of January 28, 2015, and thus could not have been complete on August 14, 2014; (3) CWs described persisting salesforce integration issues (including employee redundancies and overlap on client accounts as well as the *ad hoc* assignment of legacy employees from one company to the products and clients of the other, which they did not understand) throughout the Class Period, including **after** August 14, 2014, thus showing that the salesforce integration was still not complete at this time; (4) Extreme hired Jeff White as CRO to head the salesforce, including to manage the continuing salesforce integration efforts, on October 1, 2014, further showing that the integration could not have been completed in August; (5) CW3 confirmed that Berger and the Board internally touted White's hiring in October 2014 as intended to fix the salesforce integration problems that still existed as of that time, further evidencing that the salesforce integration was not complete earlier in August (see ¶¶ 112, 141, 144, *supra*); (6) CW3 further stated the salesforce integration still was not complete even as late as 2015, including based on White's global salesforce call in early 2015 wherein he described severe salesforce integration problems that still existed as of that time and which, according to CW3, continued until the end of the Class Period on April 9, 2015, when White abruptly departed after failing to address the problems (see ¶ 144, *supra*); (7) the two companies' "product portfolio[s]" were not "fully integrated" at this time because, based on the accounts of CWs 1, 2, 3, and 5, Extreme lacked an integration plan, including specifically a product roadmap for how the Company would combine the two companies' products, throughout

1 the Class Period, including, according to CW3 as recently as the global sales conference in Las
 2 Vegas, which was just two weeks before this statement (*see* Section V.G., *supra*); and (8)
 3 Meyercord admitted on September 14, 2016 that the Enterasys acquisition lacked such
 4 “integration planning,” including a “very clean and clear product and technology roadmap,”
 5 resulting in “a lot of integration issues” (*see* Section V.I.4.);

6 256. Arola’s statement was false and misleading in omitting the preceding material,
 7 adverse facts regarding the persisting salesforce integration problems and the lack of integration
 8 plan, including specifically a plan to merge the two salesforces and the product roadmap for
 9 combining the two companies’ products, because it created a strong impression of a state of
 10 affairs (a carefully planned integration that was now successfully completed) that differed in a
 11 material way from the one that actually existed.

12 **(ii) Scienter**

13 257. As CFO, Arola knew, or was deliberately reckless in not knowing, that his
 14 statement was false and misleading because he knew, based on his position as well as attendance
 15 at quarterly sales meetings and the 2014 annual global sales conference in Las Vegas just two
 16 weeks earlier, where such matters were openly discussed, that Extreme had no integration plan,
 17 including a plan to merge the two salesforces and the product roadmap for combining the two
 18 companies’ products, which undermined his statements. *See* Sections V.G. & V.I., *supra*.
 19 Moreover, Arola observed Berger acknowledge at this Las Vegas meeting that the salesforce
 20 integration was still not complete, that it still needed a plan, including a plan to merge the
 21 salesforces and a product roadmap for the combined Company, and that the plan was still
 22 “TBD.” *Id.* Arola also knew about the lack of an integration plan and related integration
 23 problems due to his role as CFO overseeing a merger of equals, which was a core transaction for
 24 the Company. *See* Section VII.B., *infra*.

(f) **Berger’s “Behind Us” Misstatement and Omissions on the August 14, 2014 Earnings Call**

258. Additionally, on this earnings call, Berger admitted that the integration of the salesforces within North America experienced some “challenges,” but he reassured investors that they were fully resolved:

[W]e are experiencing integration challenges in our North American sales and partner organization. ***I am confident***, having spent a great deal of time with the North America Management team over the quarter, ***that virtually all of these issues are behind us***. Additionally, two weeks ago, we held our global sales conference, bringing the entire sales team together for the first time ever. The incredible spirit and unity I saw over the entire event ***are added signs that the integration issues are behind us***.

(i) **Falsity**

259. Berger’s statements that the was “***confident***” that the salesforce “***integration issues are behind us***” as of August 14, 2014 was false and misleading because: (1) Berger admitted just two months later, on October 15, 2014, the salesforce integration was only “**nearly** completed,” and thus still not complete at that time, and therefore could not have been complete on August 14, 2014; (2) Berger later admitted that the salesforce integration was **still** not complete as of January 28, 2015, and thus could not have been complete on August 14, 2014; (3) CWs described persisting salesforce integration issues (including employee redundancies and overlap on client accounts as well as the *ad hoc* assignment of legacy employees from one company to the products and clients of the other, which they did not understand) throughout the Class Period, including **after** August 14, 2014, thus showing that the salesforce integration was still not complete at this time; (4) Extreme hired Jeff White as CRO to head the salesforce, including to manage the continuing salesforce integration efforts, on October 1, 2014, supporting that the integration could not have been completed in August; (5) CW3 confirmed that Berger and the Board internally touted White’s hiring in October 2014 as intended to fix the salesforce integration problems that still existed as of that time, further evidencing that the salesforce integration was not complete earlier in August (*see* ¶¶ 112, 141, 144, *supra*); and (6) CW3 further stated the salesforce integration still was not complete even as late as 2015, including based on White’s global salesforce call in early 2015 wherein he described severe salesforce

1 integration problems that still existed as of that time and which, according to CW3, continued
 2 until the end of the Class Period on April 9, 2015, when White abruptly departed after failing to
 3 address the problems (*see* ¶ 144, *supra*).

4 260. Berger’s statement was false and misleading in omitting the preceding material,
 5 adverse facts regarding the persisting salesforce integration problems and the lack of an
 6 integration plan, including specifically a plan to merge the two salesforces, because it created a
 7 strong impression of a state of affairs (a carefully planned integration that was now successfully
 8 completed, with any salesforce integration issues fully resolved) that differed in a material way
 9 from the one that actually existed.

10 (ii) **Scienter**

11 261. Berger knew, or was deliberately reckless in not knowing, that this statement was
 12 false and misleading because Berger knew about the lack of an integration plan to merge the
 13 salesforces and the resulting, ongoing salesforce integration problems at this time, which
 14 prevented the salesforce integration from being complete, based on his conversation with CW1
 15 in April 2014, wherein they discussed such issues, including the replacement or reassignment of
 16 legacy Extreme personnel based on legacy Enterasys executives’ individual preferences—*i.e.*,
 17 subjective, *ad hoc* factors that were not tied to any past performance metrics—rather than
 18 according to a systematic plan. *See* ¶¶ 109, 122, & 125, *supra*. Further, according to CW3,
 19 Berger knew that the salesforce was still not completely integrated only two weeks before this
 20 statement, at Extreme’s 2014 global sales conference in Las Vegas that Berger led, because sales
 21 personnel there questioned Berger about the lack of a plan to integrate the two companies. *See*
 22 ¶¶ 104 & 110, *supra*. Moreover, Berger acknowledged at this Las Vegas meeting that the
 23 salesforce integration was still not complete, that it still needed a plan, and that the plan was still
 24 “TBD.” *See* ¶ 104, *supra*. Berger also knew about the lack of an integration plan and related
 25 integration problems due to his role as CEO overseeing a merger of equals, which was a core
 26 transaction for the Company. *See* Section VII.B., *infra*. Further, Berger was then serving as the
 27 **acting head of Sales** following Crowell’s departure in May 2014, directly overseeing the
 28 salesforce and related integration efforts, and thus had direct access to the lack of an integration

1 plan and the related, persisting salesforce integration problems that prevented it from being
 2 complete. *See* ¶¶ 135-138, 141, 405-409. Indeed, Berger admitted at the time of his statements
 3 on this August 14, 2014 call that he had been closely involved in the salesforce integration since
 4 May 2014. *See* ¶ 407, *infra*.

5 262. Moreover, as noted above, Berger’s compensation agreement contained a highly
 6 unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the
 7 Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See*
 8 Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of
 9 Extreme’s stock, including by making false and misleading statements about the success of the
 10 acquisition, in order to maintain or increase the value of his 900,000 options. Berger’s potential
 11 profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share)
 12 was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id.*

13 (g) **Market Reactions to the Misstatements and Omissions**

14 263. Analysts reacted positively to Defendants’ continued reassuring statements that
 15 the concerns with integrating the salesforce in North America were over and that the integration
 16 was proceeding on track to deliver the promised financial benefits. For instance, Wunderlich
 17 Securities published an analyst report on August 15, 2014 entitled “Extreme Networks, Inc.
 18 (EXTR: \$5.35): Good Progress in F4Q14 **On Track** to Make Goals.” The report maintained its
 19 positive “Buy” rating and updated its model, discussing the Enterasys integration efforts and
 20 noting, *inter alia*, that “[m]anagement appears **on track** to achieve targets.”

21 264. Furthermore, on August 15, 2014, in a *SeekingAlpha.com* stock analysis article,
 22 the author Martin Vlcek was reassured by Defendants that “[t]he **North American integration**
 23 **issues seem to be over now**,” due to Berger’s direct involvement in overseeing the salesforce
 24 integration efforts. He wrote:

25 The Enterasys integration has “significantly exceeded expectations.” It is ahead of
 26 track in some areas, such as the ERP IT systems integration. **The integration**
 27 **challenges experienced earlier in the North American sales and partner**
 28 **organization seem to be successfully resolved now thanks to special attention**
and focus of the company’s CEO on this area.

...

1 Overall, EXTR had a very strong quarter and finished a fiscal year of
2 transformation. **Synergies from Enterasys acquisition should start flowing in.**

3 **7. October 15, 2014 – Press Release – The Truth Continues to Partially**
4 **Emerge but Defendants Continue to Mislead the Market**

5 **(a) Partial Corrective Disclosure and/or Materialization of the**
6 **Risk**

7 265. On October 15, 2014, Extreme issued a press release preannouncing disappointing
8 Q1 2015 financial results. Extreme reported revenues of \$135 to \$136.5 million for Q1 2015,
9 significantly below the Company's prior guidance of \$150 to \$155 million. Whereas the
10 Company had previously guided Non-GAAP Net Income per Diluted Share between \$0.06 and
11 \$0.08, it was now reporting that its quarter would be at best break-even, at (\$0.02) to \$0.00. In
12 the press release, Berger attributed the results to "significant delays in closing deals" in North
13 America, where Extreme was having sales integration problems. Importantly, however, this
14 announcement came over 13 months after the acquisition was announced, making it the first
15 earnings results announced during the original "12 to 24-month period" in which Defendants had
16 specified they would deliver \$30-\$40 million in cost-saving synergies. *See ¶¶ 52, 165.* This
17 drastic earnings shortfall was a sign that Extreme's integration issues were not firmly behind it as
18 Defendants had previously assured. Moreover, on the earnings call that day, Berger admitted
19 that the integration was **not fully completed** as Defendants had previously assured on August
20 14, 2014: "The combination of strong sales leadership, **nearly completed integration** and the
21 finalization of the Lenovo acquisition position us well for the remainder of our fiscal year."

22 266. As a result of these partial corrective disclosures and materialization of
23 concealed risk that integration failures would continue to negatively impact the Company's
24 ability to meet its revenue guidance, by the end of the day on October 16, 2014, following the
25 press release, Extreme's stock fell by approximately 18% on unusually heavy trading volume of
26 8.5 million shares traded, closing at \$3.06 per share from \$3.76 per share on the prior day.

27 **(b) Berger's Misstatements and Omissions**

28 267. In the press release, however, Berger minimized these purported issues and again
falsely reassured the market that in this quarter Extreme was still "***on track***" with the Enterasys

1 integration synergies. Berger also highlighted the hiring of Jeff White as CRO, responsible for
 2 the salesforce integration, as an important positive in resolving any lingering sales integration
 3 issues:

4 At the same time we made dramatic progress towards finalizing the integration of
 5 the acquisition of Enterasys during the quarter, successfully converging on a
 6 single ERP system, closing the Illinois distribution center, converting our direct
 7 distribution model in Brazil, and executing a unified partner program and service
 8 offering. ***We are on track to realize the full \$30-\$40 million in cost synergies***
 9 ***expected from the acquisition*** and were able to maintain strong gross margins in
 the first quarter, despite the top line miss. On October 1, we announced that Jeff
 White joined Extreme as chief revenue officer. Jeff brings with him 20 years of
 experience in the networking market, most recently at Cisco. . . .

10 (i) **Falsity**

11 268. Berger's statement that Extreme was "***on track to realize the full \$40-40 million***
 12 ***in cost synergies expected from the acquisition***" was false and misleading because it created the
 13 strong impression of the existence of an integration plan against which progress could be
 14 objectively measured, including a plan setting forth how the two salesforces would be integrated
 15 and other steps to cut costs and obtain synergies, when in fact there was no such plan, as
 16 demonstrated by the following: (1) the accounts of CWs 1, 2, 3, and 5 that Extreme lacked an
 17 integration plan, including a plan setting forth how the two salesforces would be integrated, a
 18 plan outlining other steps to cut costs and obtain integration synergies, a product roadmap for the
 19 combined Company, and a go-to-market strategy (*see* Section V.G., *supra*); (2) based on the
 20 accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to substantial integration
 21 problems from the beginning, including lost clients and client dissatisfaction with a salesforce
 22 that only understood half of the Company's legacy products, and client dissatisfaction with the
 23 lack of a clear product roadmap, and a failure to correct personnel redundancies during the Class
 24 Period (*see* Section V.G., *supra*); (3) Meyercord admitted on September 14, 2016 that the
 25 Enterasys acquisition lacked such "integration planning," including a "very clean and clear
 26 product and technology roadmap," resulting in "a lot of integration issues" (*see* Section V.I.4.);
 27 (4) Meyercord announced on May 20-21, 2015 a "**new** operating plan," including a "**new** go-to-
 28 market strategy" and a **new** cost-cutting measure of an 18% workforce reduction to save \$40

1 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during
 2 the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created
 3 by the acquisition were not eliminated during the Class Period, and thereby showing that such
 4 cost-saving synergies were not achieved during the Class Period.

5 269. Berger's statement was false and misleading in omitting this lack of an integration
 6 plan and the other material, adverse facts regarding integration problems as discussed in the
 7 preceding paragraph, because it created a strong impression of a state of affairs (a carefully
 8 planned integration that was positively proceeding "on track" with such a plan and was
 9 reasonably likely to generate the \$30-40 million in synergies) that differed in a material way
 10 from the one that actually existed.

11 **(ii) Scienter**

12 270. Berger knew, or was deliberately reckless in not knowing, that this statement was
 13 false and misleading because, according to CW3, he knew of the lack of an integration plan at
 14 this time based on his participation in quarterly sales calls after the acquisition where sales
 15 personnel questioned him about such a plan, thus showing that the Company did not have a plan
 16 at that time. *See* ¶¶103-105, *supra*. Indeed, Berger was telling the salesforce that the integration
 17 plan, including the product roadmap for the combined Company and the plan to achieve
 18 integration synergies, was still "TBD" just two and a half months earlier, at the annual global
 19 sales conference in Las Vegas. *See* ¶104, *supra*. Further, Berger knew about the lack of an
 20 integration plan to merge the salesforces and the resulting, ongoing salesforce integration
 21 problems at this time based on his conversation with CW1 in April 2014, wherein they discussed
 22 such issues, including the replacement or reassignment of legacy Extreme personnel based on
 23 legacy Enterasys executives' individual preferences—*i.e.*, subjective, *ad hoc* factors that were
 24 not tied to any past performance metrics—rather than according to a systematic plan. *See* ¶¶
 25 109, 122, & 125, *supra*. Additionally, Berger knew such information specifically at this time
 26 because CW3 spoke directly with Berger about the continuing salesforce integration problems
 27 that resulted from the lack of an integration plan at approximately this time, in October and/or
 28 November 2014. *See* ¶ 126, *supra*. Berger also knew about the lack of an integration plan and

1 related integration problems due to his role as CEO overseeing a merger of equals, which was a
 2 core transaction for the Company. *See* Section VII.B., *infra*. Further, Berger had been serving
 3 as the **acting head of Sales** from May 2014 and up until two weeks before this statement
 4 (October 1, 2014, when White was hired as CRO); therefore, Berger had been directly
 5 overseeing the salesforce and related integration efforts, and thus had direct access to the lack of
 6 an integration plan and the related, persisting salesforce integration problems. *See* ¶¶ 135-138,
 7 141, 405-409. Indeed, Berger admitted on the August 14, 2014 call that he had been closely
 8 involved in the salesforce integration since May 2014. *See* ¶ 407, *infra*.

9 271. Moreover, as noted above, Berger’s compensation agreement contained a highly
 10 unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the
 11 Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See*
 12 Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of
 13 Extreme’s stock, including by making false and misleading statements about the success of the
 14 acquisition, in order to maintain or increase the value of his 900,000 options. Berger’s potential
 15 profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share)
 16 was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id.*

17 (c) Market Reactions to the Misstatements and Omissions

18 272. Although analysts recognized the disappointing financial results as a potential
 19 sign of some integration issues, they nevertheless continued to be misled by Defendants’ false
 20 reassurances that these issues were temporary or now resolved. For example, in an October 16,
 21 2014 report, Wunderlich Securities stated, “[m]anagement commentary and channel checks
 22 during the quarter **mentioned integration issues as having an impact on revenue, including**
 23 **delayed start to the quarter with early July ERP integration.**” Nevertheless, Wunderlich was
 24 comforted by Defendants’ reassurances that any lingering issues were “temporary,” maintaining
 25 its “Buy” rating:

26 Yesterday after regular trading, Extreme Networks (EXTR) warned of F1Q15
 27 shortfall. **With most of the challenges self-imposed for acquisition and**
 28 **distribution integration, we expected them to have been baked in to**
guidance. However, it appears a tougher-than-expected economic environment
 and **perhaps trouble with sales waiting for a new manager to board were**

1 **more than management anticipated. We believe most of these issues are**
 2 **temporary. . . .**

3 As the report further explained:

4 With a more challenging macroeconomic environment combining with integration
 5 and management transition, F1Q15 was the worst pro-forma comparison since the
 6 Enterasys acquisition. **However, the integration sales channel and**
 7 **management issues that handicapped the quarter are mostly behind the**
 8 **company and we expect to see better execution almost immediately** (assuming
 9 no further negative revelations from the earnings call week after next).

10 273. Likewise, in a report issued on October 16, 2014, Craig-Hallum echoed
 11 Defendants' misleading assurances attributing the miss to one-time events such as deal slippage:
 12 "[w]e believe roughly half of the company's revenue miss was the result of deal delays in North
 13 America and that these deals are not lost but instead pushed out as companies have been
 14 digesting macroeconomic uncertainty." This report further maintained its positive "buy" rating
 15 on Extreme based on Defendants misstatements regarding the successful progress of the
 16 integration: **"management believes the company remains on track to realize \$30-\$40 million**
 17 **of synergies from the Enterasys acquisition** which we believe could begin to show up in
 18 reduced operating expenses in the next few quarters as the integration of the Enterasys
 19 acquisition is nearly finalized."

18 8. October 28, 2014 – Press Release and Earnings Call

19 (a) Berger's Misstatement and Omissions in the October 28, 2014 20 Press Release

21 274. On October 28, 2014, Extreme issued a press release announcing its financial
 22 results of Q1 2015 and Q2 2015 guidance. Extreme reported revenue of \$137.1 million for Q1
 23 2015, slightly above the Company's preannounced results, and guided revenue in the range of
 24 \$140 to \$150 million for 2Q 2015. In the press release, Berger reassured investors that Extreme
 25 was still **"on track"** to attain its \$30 to \$40 million in cost-saving synergies from the Enterasys
 26 integration:

27 During the quarter, we made significant progress towards finalizing the
 28 integration of the acquisition of Enterasys: successfully converging on a single
 ERP system, closing the Illinois distribution center, selectively reducing the
 number of distributors globally, converting our direct distribution model in Brazil
 to a leveraged two tier model, and executing a unified partner program and

1 service offering. Although these changes were well executed, they also had an
 2 impact on our revenues during the quarter as our partners and sales people had to
 3 learn a new way to do business with us. ***We are on track to realize the full \$30 to***
\$40 million in cost synergies expected from the acquisition and were able to
 4 maintain strong gross margins in the first quarter, despite the top line miss.

(i) Falsity

5 275. Berger's statement that Extreme was "***on track to realize the full \$30 to 40***
 6 ***million in cost synergies expected from the acquisition***" was false and misleading because it
 7 created the strong impression of the existence of an integration plan against which progress could
 8 be objectively measured, including a plan setting forth how the two salesforces would be
 9 integrated and other steps to cut costs and obtain synergies, when in fact there was no such plan,
 10 as demonstrated by the following: (1) the accounts of CWs 1, 2, 3, and 5 that Extreme lacked an
 11 integration plan, including a plan setting forth how the two salesforces would be integrated, a
 12 plan outlining other steps to cut costs and obtain integration synergies, a product roadmap for the
 13 combined Company, and a go-to-market strategy (*see* Section V.G., *supra*); (2) based on the
 14 accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to substantial integration
 15 problems from the beginning, including lost clients and client dissatisfaction with a salesforce
 16 that only understood half of the Company's legacy products, and client dissatisfaction with the
 17 lack of a clear product roadmap, and a failure to correct personnel redundancies during the Class
 18 Period (*see* Section V.G., *supra*); (3) Meyercord admitted on September 14, 2016 that the
 19 Enterasys acquisition lacked such "integration planning," including a "very clean and clear
 20 product and technology roadmap," resulting in "a lot of integration issues" (*see* Section V.I.4.);
 21 (4) Meyercord announced on May 20-21, 2015 a "**new** operating plan," including a "**new** go-to-
 22 market strategy" and a **new** cost-cutting measure of an 18% workforce reduction to save \$40
 23 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during
 24 the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created
 25 by the acquisition were not eliminated during the Class Period, and thereby showing that such
 26 cost-saving synergies were not achieved during the Class Period.
 27
 28

276. Berger’s statement was false and misleading in omitting this lack of an integration plan and the other material, adverse facts regarding integration problems as discussed in the preceding paragraph, because it created a strong impression of a state of affairs (a carefully planned integration that was positively proceeding “on track” with such a plan and was reasonably likely to generate the \$30-40 million in synergies) that differed in a material way from the one that actually existed.

(ii) Scierter

277. Berger knew, or was deliberately reckless in not knowing, that this statement was false and misleading because, according to CW3, he knew of the lack of an integration plan at this time based on his participation in quarterly sales calls after the acquisition where sales personnel questioned him about such a plan, thus showing that the Company did not have a plan at that time. *See* ¶¶103-105, *supra*. Indeed, Berger was telling the salesforce that the integration plan, including the product roadmap for the combined Company and the plan to achieve integration synergies, was still “TBD” just three months earlier, at the annual global sales conference in Las Vegas. *See* ¶104, *supra*. Further, Berger knew about the lack of an integration plan to merge the salesforces and the resulting, ongoing salesforce integration problems at this time based on his conversation with CW1 in April 2014, wherein they discussed such issues, including the replacement or reassignment of legacy Extreme personnel based on legacy Enterasys executives’ individual preferences—*i.e.*, subjective, *ad hoc* factors that were not tied to any past performance metrics—rather than according to a systematic plan. *See* ¶¶109, 122, & 125, *supra*. Additionally, Berger knew such information specifically at this time because CW3 spoke directly with Berger about the continuing salesforce integration problems that resulted from the lack of an integration plan at approximately this time, in October and/or November 2014. *See* ¶126, *supra*. Berger also knew about the lack of an integration plan and related integration problems due to his role as CEO overseeing a merger of equals, which was a core transaction for the Company. *See* Section VII.B., *infra*. Further, Berger had been serving as the **acting head of Sales** from May 2014 and up until about a month before this statement (October 1, 2014, when White was hired as CRO); therefore, Berger had been directly

1 overseeing the salesforce and related integration efforts, and thus had direct access to the lack of
 2 an integration plan and the related, persisting salesforce integration problems. *See* ¶¶ 135-138,
 3 141, 405-409. Indeed, Berger admitted on the August 14, 2014 call that he had been closely
 4 involved in the salesforce integration since May 2014. *See* ¶ 407, *infra*.

5 278. Moreover, as noted above, Berger’s compensation agreement contained a highly
 6 unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the
 7 Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See*
 8 Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of
 9 Extreme’s stock, including by making false and misleading statements about the success of the
 10 acquisition, in order to maintain or increase the value of his 900,000 options. Berger’s potential
 11 profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share)
 12 was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id.*

13 (b) **Berger’s “Disruptions Now Fully Behind Us” Misstatement on**
 14 **the October 28, 2014 Earnings Call**

15 279. Later that day, Extreme hosted an earnings call with analysts to discuss the
 16 financial results of 1Q 2015. Berger and Arola participated in the call, and Berger acknowledged
 17 that the low revenue and top-line growth were caused by “significant” “disruptions” resulting
 18 from the ongoing Enterasys integration efforts – disruptions which Defendants previously
 19 assured investors would not happen (*see, e.g.*, ¶¶ 52, 170). Specifically, Berger described how
 20 “virtually every part of our business, and the interface between our partners, customers and
 21 Extreme were disrupted in a significant way during the quarter, and contributed to the
 22 disappointment on the top line.” However, Berger reassured investors on the conference call that
 23 “[f]or the most part, *these disruptions are now fully behind us.*”

24 (i) **Falsity**

25 280. Berger’s statement in the preceding paragraph that the integration-related
 26 “*disruptions are now fully behind us*” was false and misleading because: (1) Berger later
 27 admitted that the salesforce integration was **still** not complete and Extreme was **still** experiencing
 28 salesforce integration problems as of January 28, 2015, and thus such integration-related

1 disruptions could not have been “fully” resolved at this time in October 2014; (2) CWs described
 2 persisting salesforce integration issues (including employee redundancies and overlap on client
 3 accounts as well as the *ad hoc* assignment of legacy employees from one company to the
 4 products and clients of the other, which they did not understand) throughout the Class Period,
 5 including **after** this date, thus showing that integration-related disruptions could not have been
 6 “fully” resolved at this time; (3) Extreme hired Jeff White as CRO to head the salesforce,
 7 including to manage the continuing salesforce integration efforts, just a few weeks earlier, on
 8 October 1, 2014, supporting that the integration-related disruptions could not have been “fully”
 9 resolved at this time; (4) CW3 confirmed that Berger and the Board internally touted White’s
 10 hiring in October 2014 as intended to fix the salesforce integration problems that still existed as
 11 of that time, further evidencing that the integration-related disruptions could not have been
 12 “fully” resolved at this time (*see* ¶¶ 112, 141, 144, *supra*); and (5) CW3 further stated the
 13 salesforce integration still was not complete even as late as 2015, including based on White’s
 14 global salesforce call in early 2015 wherein he described severe salesforce integration problems
 15 that still existed as of that time and which, according to CW3, continued until the end of the
 16 Class Period on April 9, 2015, when White abruptly departed after failing to address the
 17 problems (*see* ¶ 144, *supra*)—thus, further demonstrating that integration-related disruptions
 18 could not have been “fully” resolved on October 28, 2014.

19 281. Berger’s statement was false and misleading in omitting the preceding material,
 20 adverse facts regarding the persisting salesforce integration problems and the lack of an
 21 integration plan, including specifically a plan to merge the two salesforces, because it created a
 22 strong impression of a state of affairs (a carefully planned integration that was now successfully
 23 completed, with any salesforce integration “disruptions” “fully” resolved) that differed in a
 24 material way from the one that actually existed.

25 **(ii) Scierter**

26 282. Berger knew, or was deliberately reckless in not knowing, that this statement was
 27 false and misleading because Berger knew about the lack of an integration plan to merge the
 28 salesforces and the resulting, ongoing salesforce integration problems, which showed that the

1 integration-related disruptions were not “fully” resolved, based on his conversation with CW1 in
 2 April 2014, wherein they discussed such issues, including the replacement or reassignment of
 3 legacy Extreme personnel based on legacy Enterasys executives’ individual preferences—*i.e.*,
 4 subjective, *ad hoc* factors that were not tied to any past performance metrics—rather than
 5 according to a systematic plan. *See* ¶¶ 109, 122, & 125, *supra*. Further, according to CW3,
 6 Berger knew that the salesforce was still not completely integrated only three months before this
 7 statement, at Extreme’s 2014 global sales conference in Las Vegas that Berger led, because sales
 8 personnel there questioned Berger about the lack of a plan to integrate the two companies. *See*
 9 ¶¶ 104 & 110, *supra*. Moreover, Berger acknowledged at this Las Vegas meeting that the
 10 salesforce integration was still not complete, that it still needed a plan, and that the plan was still
 11 “TBD.” *See* ¶ 104, *supra*. Additionally, Berger knew such information specifically at this time
 12 because CW3 spoke directly with Berger about the continuing salesforce integration problems
 13 that resulted from the lack of an integration plan at approximately this time, in October and/or
 14 November 2014. *See* ¶ 126, *supra*. Berger also knew about the lack of an integration plan and
 15 related integration problems due to his role as CEO overseeing a merger of equals, which was a
 16 core transaction for the Company. *See* Section VII.B., *infra*. Further, Berger had been serving as
 17 the **acting head of Sales** from May 2014 until about a month before this statement (October 1,
 18 2014, when White was hired as CRO); therefore, Berger had been directly overseeing the
 19 salesforce and related integration efforts, and thus had direct access to the lack of an integration
 20 plan and the related, persisting salesforce integration problems. *See* ¶¶ 135-138, 141, 405-409.
 21 Indeed, Berger admitted on the August 14, 2014 call that he had been closely involved in the
 22 salesforce integration since May 2014. *See* ¶ 407, *infra*.

23 283. Moreover, as noted above, Berger’s compensation agreement contained a highly
 24 unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the
 25 Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See*
 26 Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of
 27 Extreme’s stock, including by making false and misleading statements about the success of the
 28 acquisition, in order to maintain or increase the value of his 900,000 options. Berger’s potential

1 profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share)
 2 was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id.*

3 (c) **Arola’s Synergies “On Track” Misstatement and Omissions on**
 4 **the October 28, 2014 Earnings Call**

5 284. During the call, Berger touted the appointment of Jeff White, “a true sales leader,”
 6 as CRO to lead the ongoing salesforce integration and achieve “better sales execution.” Arola
 7 similarly discussed the hiring of “Jeff White, our new Chief Revenue Officer” as intended to
 8 improve the salesforce integration efforts and thus “reduc[e] our sales expenses as we go
 9 forward,” and thus assured: “*We continue to [be on] track to realize the full \$30 million to \$40*
 10 *million of synergies expected from the Enterasys acquisition.*”

11 (i) **Falsity**

12 285. Arola’s statement that Extreme “continue[d] to [be on] track to realize the full \$30
 13 million to \$40 million of synergies expected from the Enterasys acquisition” was false and
 14 misleading because it created the strong impression of the existence of an integration plan
 15 against which progress could be objectively measured, including a plan setting forth how the two
 16 salesforces would be integrated and other steps to cut costs and obtain synergies, when in fact
 17 there was no such plan, as demonstrated by the following: (1) the accounts of CWs 1, 2, 3, and 5
 18 that Extreme lacked an integration plan, including a plan setting forth how the two salesforces
 19 would be integrated, a plan outlining other steps to cut costs and obtain integration synergies, a
 20 product roadmap for the combined Company, and a go-to-market strategy (*see* Section V.G.,
 21 *supra*); (2) based on the accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to
 22 substantial integration problems from the beginning, including lost clients and client
 23 dissatisfaction with a salesforce that only understood half of the Company’s legacy products,
 24 client dissatisfaction with the lack of a clear product roadmap, and a failure to correct personnel
 25 redundancies during the Class Period (*see* Section V.G., *supra*); (3) Meyercord admitted on
 26 September 14, 2016 that the Enterasys acquisition lacked such “integration planning,” including
 27 a “very clean and clear product and technology roadmap,” resulting in “a lot of integration
 28 issues” (*see* Section V.I.4.); (4) Meyercord announced on May 20-21, 2015 a “new operating

plan,” including a “new go-to-market strategy” and a new cost-cutting measure of an 18% workforce reduction to save \$40 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created by the acquisition were not eliminated during the Class Period, and thereby showing that such cost-saving synergies were not achieved during the Class Period.

286. Arola’s statement was false and misleading in omitting this lack of an integration plan and the other material, adverse facts regarding integration problems as discussed in the preceding paragraph, because it created a strong impression of a state of affairs (a carefully planned integration that was positively proceeding “on track” with such a plan and was reasonably likely to generate the \$30-40 million in synergies) that differed in a material way from the one that actually existed.

(ii) Scienter

287. As CFO, Arola knew, or was deliberately reckless in not knowing, that his statement was false and misleading because he knew, based on his position as well as attendance at quarterly sales meetings and the 2014 annual global sales conference in Las Vegas three months earlier, where such matters were openly discussed, that Extreme had no integration plan, including a plan for how the Company would achieve \$30 million to \$40 million in synergies, which undermined his statements. *See* Sections V.G. & V.I., *supra*. Moreover, Arola observed Berger acknowledge at this Las Vegas meeting that the salesforce integration was still not complete, that it still needed a plan, including a plan to achieve integration synergies, and that the plan was still “TBD.” *Id.* Arola also knew about the lack of an integration plan and related integration problems due to his role as CFO overseeing a merger of equals, which was a core transaction for the Company. *See* Section VII.B., *infra*.

(d) Market Reactions to the Misstatements and Omissions

288. Investors reacted positively to these reassurances. After the October 28, 2014 earnings call, Extreme’s stock price increased approximately **10%** to a closing price of \$3.63 per

1 share on October 29, 2014 from a closing price of \$3.30 per share on October 28, 2014 on
 2 unusually heavy trading volume of 3.9 million shares.

3 289. Analysts also reacted favorably to Defendants' misstatements, evidencing that the
 4 market continued to be misled, including by adopting Extreme's slippage explanation for its
 5 continued failures. For example, in a report issued on October 29, 2014, Wunderlich Securities
 6 maintained its "Buy" rating and concluded that "we believe the company is now on much better
 7 footing for growth," explaining: "Extreme Networks...integration ambitions were arguably a bit
 8 more than could be managed while executing in the current industry environment, **but they**
 9 **appear to have been accomplished and now the company is positioned** with channels,
 10 executive staff and information systems **to grow.**"

11 290. Other analysts also highlighted Defendants' statements regarding the hiring of
 12 Jeff White as CRO as an important positive step in rectifying any remaining sales integration
 13 issues. For example, an October 29, 2014 Buckingham Research Group report stated: "New
 14 sales leadership brings long term positives . . . As we indicated in our note October 1st **when**
 15 **Jeff White was announced, we think the new Chief Revenue Officer (aka head of sales) is**
 16 **likely to bring about positive change to an organization in desperate need of sales**
 17 **leadership.**"

18 9. December 17, 2014 – Bernstein Technology Innovation Summit

19 (a) Arola's Misstatements and Omissions

20 291. On December 17, 2014, Arola and Eric Broockman, Extreme's Chief
 21 Technology Officer, attended the Bernstein Technology Innovation Summit, where Arola
 22 discussed the successful completion of the Enterasys integration, particularly with respect to the
 23 salesforce:

24
 25 *From a sales perspective, more specifically, sales organizations have been*
 26 *integrated.* We've actually brought in new talent also to the organization. We
 27 have a new VP of North America. We have a new worldwide VP or CRO [Jeff
 28 White] who came on board. Both of these individuals, longer-term Cisco
 employees, very well respected in the industry, and really hit the ground running
 for us here.

...

summer, where such matters were openly discussed, that Extreme had no integration plan, including a plan to merge the two salesforces, which undermined his statements. *See* Sections V.G. & V.I., *supra*. Moreover, Arola observed Berger acknowledge at this Las Vegas meeting that the salesforce integration was still not complete, that it still needed a plan, including a plan to merge the salesforces and a product roadmap for the combined Company, and that the plan was still “TBD.” *Id.* Arola also knew about the lack of an integration plan and related integration problems due to his role as CFO overseeing a merger of equals, which was a core transaction for the Company. *See* Section VII.B., *infra*.

10. January 28, 2015 – Q2 2015 Earnings Call

(a) Berger’s Misstatement and Omissions

295. On January 28, 2015, Extreme hosted an earnings call with analysts to discuss its results for the Q2 2015 and its guidance for Q3 2015. Berger and Arola participated in this call with analysts. Extreme announced that it generated revenue of \$147.2 million for Q2 2015, which was in line with original guidance, and expected revenue in the range of \$129 to \$139 million for Q3 2015, which was slightly lower than analysts’ expectations.

296. During the call, Berger discussed the purported strengthening of the salesforce, under the new leadership of White, among other things, and, in response to an analyst’s question, he assured that the Company was still “*on track*” to deliver the promised integration synergies:

[Analyst]: “All right. I think I did the math myself anyway. So this is a little bit tougher question, okay? What is our ultimate OpEx goal? The reason why I say that is, before you bought Enterasys you were doing \$299 million, and making \$0.18 of your own. And now we’ve put the two companies together, and revenues have gone down, and we’re going to make less than that, this year. So obviously this has not gone well at all.

And so you guys were running at about a \$73 million OpEx, give or take. Enterasys was running a little heavier. At one point -- and I know, Chuck, you were put in a position to fail, or a position of extreme difficulty in this acquisition, since you were told shortly after you joined the Company that you had bought it without having your own team together to take a look at what you had, let alone figure out what you had at Extreme. But now that you’ve been there a while, and we’ve upgraded the salesforce, at what point in the future should we anticipate OpEx in line with realistic quarterly revenue expectations?

1 [Berger:] That's a broad question, so let me cover it, and get to the answer
 2 regarding OpEx. First of all, I absolutely do not believe the acquisition and
 3 subsequent integration of Enterasys has, to use your words, failed miserably.
 4 We've put two very different companies together, although they look a lot alike
 5 from the outside. Last year, we managed to finish the year with just over 2%
 6 revenue erosion, ***and we're right on track with where we expected to be from a
 7 synergy basis.***

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(i) Falsity

297. Berger's statement that Extreme was "***right on track***" to achieve the \$30 million
 to \$40 million of synergies from the Enterasys integration was false and misleading because it
 created the strong impression of the existence of an integration plan against which progress could
 be objectively measured, including a plan setting forth how the two salesforces would be
 integrated and other steps to cut costs and obtain synergies, when in fact there was no such plan,
 as demonstrated by the following: (1) the accounts of CWs 1, 2, 3, and 5 that Extreme lacked an
 integration plan, including a plan setting forth how the two salesforces would be integrated, a
 plan outlining other steps to cut costs and obtain integration synergies, a product roadmap for the
 combined Company, and a go-to-market strategy (*see* Section V.G., *supra*); (2) based on the
 accounts of CWs 1, 2, 3, 4, and 5, the lack of an integration plan led to substantial integration
 problems from the beginning, including lost clients and client dissatisfaction with a salesforce
 that only understood half of the Company's legacy products, client dissatisfaction with the lack
 of a clear product roadmap, and a failure to correct personnel redundancies during the Class
 Period (*see* Section V.G., *supra*); (3) Meyercord admitted on September 14, 2016 that the
 Enterasys acquisition lacked such "integration planning," including a "very clean and clear
 product and technology roadmap," resulting in "a lot of integration issues" (*see* Section V.I.4.);
 (4) Meyercord announced on May 20-21, 2015 a "**new** operating plan," including a "**new** go-to-
 market strategy" and a **new** cost-cutting measure of an 18% workforce reduction to save \$40
 million, supporting the statements of CWs 1, 2, 3, and 5 that there was no such prior plan during
 the Class Period and the statements of CWs 1, 2, 3 and 4 that the employee redundancies created
 by the acquisition were not eliminated during the Class Period, and thereby showing that such
 cost-saving synergies were not achieved during the Class Period.

298. Berger’s statement was false and misleading in omitting this lack of an integration plan and the other material, adverse facts regarding integration problems as discussed in the preceding paragraph, because it created a strong impression of a state of affairs (a carefully planned integration that was positively proceeding “on track” with such a plan and was reasonably likely to generate the \$30-40 million in synergies) that differed in a material way from the one that actually existed.

(ii) Scienter

299. Berger knew, or was deliberately reckless in not knowing, that this statement was false and misleading because, according to CW3, he knew of the lack of an integration plan at this time based on his participation in quarterly sales calls after the acquisition where sales personnel questioned him about such a plan, thus showing that the Company did not have a plan at that time. *See* ¶¶103-105, *supra*. Indeed, Berger was telling the salesforce that the integration plan, including the product roadmap for the combined Company and the plan to achieve integration synergies, was still “TBD” just six months earlier, at the annual global sales conference in Las Vegas. *See* ¶ 104, *supra*. Further, Berger knew about the lack of an integration plan to merge the salesforces and the resulting, ongoing salesforce integration problems at this time based on his conversation with CW1 in April 2014, wherein they discussed such issues, including the replacement or reassignment of legacy Extreme personnel based on legacy Enterasys executives’ individual preferences—*i.e.*, subjective, *ad hoc* factors that were not tied to any past performance metrics—rather than according to a systematic plan. *See* ¶¶ 109, 122, & 125, *supra*. Additionally, Berger knew such information specifically at this time because CW3 spoke directly with Berger about the continuing salesforce integration problems that resulted from the lack of an integration plan just two-three months earlier, in October and/or November 2014. *See* ¶ 126, *supra*. Berger also knew about the lack of an integration plan and related integration problems due to his role as CEO overseeing a merger of equals, which was a core transaction for the Company. *See* Section VII.B., *infra*. Further, Berger had served as the **acting head of Sales** from May to October 2014 (before White was hired as CRO); therefore, Berger had been directly overseeing the salesforce and related integration efforts, and thus had

1 direct access to the lack of an integration plan and the related, persisting salesforce integration
 2 problems. *See* ¶¶ 135-138, 141, 405-409. Indeed, Berger admitted on the August 14, 2014 call
 3 that he had been closely involved in the salesforce integration since May 2014. *See* ¶ 407, *infra*.

4 300. Moreover, as noted above, Berger's compensation agreement contained a highly
 5 unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the
 6 Company stock increased to \$6.00 per share and stayed above that price target for 30 days. *See*
 7 Section VII.A., *infra*. Berger was then incentivized to maintain or further inflate the price of
 8 Extreme's stock, including by making false and misleading statements about the success of the
 9 acquisition, in order to maintain or increase the value of his 900,000 options. Berger's potential
 10 profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share)
 11 was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000. *Id.*

12 (b) Market Reactions to the Misstatements and Omissions

13 301. The market reacted favorably to Defendants' assurances that the Company was
 14 on track to deliver the promised \$30-40 million of integration synergies and year-end guidance.
 15 Accordingly, after the January 28, 2015 earnings call, the Company's stock price increased by
 16 9%, closing at \$3.04 per share on January 29, 2015 from a close of \$2.78 per share the day
 17 before.

18 302. Analysts were also encouraged by Defendants' reassuring statements. For
 19 example, on January 29, 2015, Wunderlich Securities published an analyst report stating,

20 It appears the company may have been too hasty to integrate the two sales forces,
 21 but there were so many disparate operating policies between the two companies
 22 that there was not a lot of choice, especially since integrating ERP systems was a
 23 major operating expense initiative. Efforts are underway to achieve long-term
 24 customer service, inside sales and territory solutions, among other issues. At a
 25 minimum, **we believe that with a quarter of tenure now completed, the new
 head of sales can at least forecast better.**

25 11. April 9, 2015 – The Truth Was Fully Revealed

26 303. On April 9, 2015, after the close of trading, the Company preannounced that it
 27 would miss its previously issued earnings estimates for the third quarter of fiscal 2015. The
 28 press release stated that Extreme expected non-GAAP revenue in the range of \$118 to \$120

1 million, compared to the previous estimates of \$130 to \$140 million, falling far below guidance
2 and investor expectations. It also announced that Jeff White was “no longer with the Company.”

3 304. Extreme’s stock collapsed as a result of these disclosures. Shares lost
4 approximately 25% of their value, falling from a close of \$3.24 per share on April 9, 2015 to
5 \$2.50 per share on April 10, 2015, on 10.1 million shares traded.

6 305. The market was surprised, as shown by the analyst reports issued on April 10,
7 2015. Analysts drew a direct connection between the missed earnings estimates, White’s
8 departure, integration problems, and the Company’s overall financial health. For example, on
9 April 10, 2015, Wunderlich Securities issued an analyst report downgrading its rating from
10 “Buy” to “Hold” and reducing its target price **by more than half**, from \$6.00/share to
11 \$2.80/share. The analyst report clarified that Extreme’s announcements the previous day were
12 the cause of its downgrade, highlighting White’s departure as a sign of persisting salesforce
13 integration problems:

14 Yesterday after regular trading, Extreme (EXTR) continued the pattern of missing
15 expectations in alternating quarters with a F3Q15 warnings of magnitude
16 comparable to that of F1Q15, except that estimates have come down since
17 then....Chief revenue officer [White] had a 6-month stint. Along with the
18 warning, management announced the departure last Monday of the sales leader
who started in early October. Our understanding is that other recent sales
department hires will stay on and that the CEO will run the department again until
a replacement executive is found.

19 Together, these disclosures caused the analyst report to dramatically revise its valuation of the
20 company downward, which it stated would last “until there are signs that the company can find
21 the recipe for execution.”

22 306. Similarly, a Buckingham Research Group analyst report on the same day
23 announced that it was lowering its share price target from \$3.50 to \$3.00 “on [the] negative
24 preannouncement.” Specifically, the report noted that “Mr. White had only been on board since
25 October 1, 2014, and **we see the surprise announcement as an indicator of greater challenges**
26 **at the company.**” The report further explained the negative implications of this news:

27 [T]he appointment of Mr. White, given his years of experience at companies such
28 as [Cisco] . . . was supposed to be an answer to the challenges. In fact
management had even indicated that sales changes would drive some of the

1 potential revenue improvement over the next several quarters. There are few
 2 details explaining why there is a vacancy once again in the sales leadership
 3 position, but **the bottom line is that a significant sales rebound is unlikely to
 occur until there is stability in the role**, in our view.

4 The report analyzed “[r]easons for the miss” and concluded “we believe . . . internal challenges
 5 likely had a role.” The analyst lowered its estimates because, per the report’s title: “Another
 6 Miss and Sales Leadership Departure **Signal Ongoing Challenges.**”

7 **B. Misstatements and Omissions Regarding the Lenovo Partnership**

8 **1. August 14, 2014 – Q4 2014 Earnings Call**

9 **(a) Berger’s Misstatement and Omissions**

10 307. On August 14, 2014, Extreme hosted an earnings call with analysts to discuss the
 11 financial results of Q4 2014 and the Company’s guidance for Q1 2015. *See supra* ¶ 235.
 12 During the call, Berger touted Extreme’s partnership with Lenovo and its substantial
 13 contribution to Extreme’s revenues:

14 We continue to make progress in expanding our relationships with key partners,
 15 particularly Lenovo. In the last quarter, I met with the Lenovo executive team in
 16 China and it is clear they are strongly committed to the alliance. ***We’ve also
 trained all Lenovo North American reps on Extreme products.*** We continue to
 17 believe that Lenovo will begin to generate significant revenues for us starting in
 our fourth quarter of 2015 and beyond.

18 **(i) Falsity**

19 308. Berger’s statement in the preceding paragraph regarding Extreme’s training of
 20 Lenovo sales representatives was false and misleading because Extreme did not train “***all
 21 Lenovo North American reps on Extreme products,***” as demonstrated by the following: (1)
 22 the account of CW4 that there was no activity at the “field” level towards the alliance (including
 23 any meetings between the Extreme and Lenovo salesforces), and thus no training of field-level
 24 sales representatives; (2) the account of CW7 that, from May 2013 until at least January 2015,
 25 Extreme had not put in place any means for the Lenovo sales people to benefit from Extreme’s
 26 product line, and thus there was no incentive for Lenovo representatives to train on Extreme’s
 27 products, nor any reason for them to sell Extreme’s products even if they had; and (3) Meyercord
 28 admitted on May 6, 2015, that the Company did not actually know “whether or not we’re

1 collaborating in the field” and had “zero visibility into Lenovo,” creating the strong inference
 2 (especially in combination with CW4’s observations) that there was a similar lack of field
 3 activity with and visibility into Lenovo throughout the Class Period, including when this
 4 statement was made.

5 309. Berger’s statement was false and misleading because in omitting the lack of field-
 6 level activity and visibility with Lenovo as well as the other material, adverse facts as discussed
 7 in the preceding paragraph, it created a strong impression of a state of affairs (a productive
 8 partnership that was reasonably likely to generate the promised revenue benefits) that differed in
 9 a material way from the one that actually existed. *See* Sections V.H, V.I.1., & V.I.3.

10 (ii) **Scienter**

11 310. Berger knew, or was deliberately reckless in not knowing, that his preceding
 12 statement was false and misleading because of Meyercord’s May 6, 2015 statement that Extreme
 13 still had “zero visibility” into the Lenovo partnership’s ability to drive Extreme’s revenues.
 14 Given that CWs reported a lack of field-level activity between Lenovo and Extreme sales
 15 personnel during the Class Period (*see* ¶¶ 149-150 *supra*) and Meyercord’s admission of “zero
 16 visibility” into Lenovo shortly after the Class Period, there is a strong inference that there was a
 17 similar lack of field activity with and visibility into Lenovo in August 2014. Further, Berger had
 18 direct access to such information because he was **acting head of Sales** at this time (as discussed
 19 in ¶¶ 135-138, 141, 405-409, *supra*), and was leading quarterly sales calls and the global sales
 20 conference in Las Vegas, which occurred just two weeks before this statement, where such lack
 21 of Lenovo “field” level activity and resulting lack of revenues reasonably would have been
 22 discussed.

23 311. As noted above, Berger’s compensation agreement contained a highly unusual
 24 feature wherein he earned a total of 900,000 Extreme stock options when the price of the
 25 Company stock increased to \$6.00 per share and stayed above that price target for 30
 26 days. Berger was then incentivized to maintain or further inflate the price of Extreme’s stock,
 27 including by making false and misleading statements about the Lenovo partnership, in order to
 28 maintain or increase the value of his 900,000 options. Berger’s potential profit during the Class

1 Period on those shares (based on the Class Period high of \$8.14 per share) was in excess of \$4.4
2 million, or almost **nine times** his baseline annual salary of \$500,000.

3 **(b) Market Reactions to the Misstatement and Omissions**

4 312. The market reacted positively to these assurances regarding the Lenovo
5 partnership. For instance, an August 15, 2014 Craig-Hallum analyst report continued to
6 maintain its positive “Buy” rating in part because “[m]anagement believes that **given the . . .**
7 **positive impact of its partnership with Lenovo**, the company can achieve double digit
8 year/year revenue growth and 10% operating margins in the June 2015 quarter.”

9 313. Similarly, Buckingham Research Group increased its price target for Extreme,
10 writing on August 15, 2014 that “**Lenovo remains primary partnership opportunity.**” The
11 report further stated that “we continue to think Lenovo remains the biggest potential catalyst for
12 the top line” in part because “[m]anagement indicated that . . . Lenovo remains committed to the
13 partnership.”

14 314. Likewise, on August 15, 2014, in a *SeekingAlpha.com* stock analysis article
15 authored by analyst Martin Vlcek observed: “The company confirmed its previous guidance,
16 with growth expected to be **driven by increased Lenovo Business**” and “expects a 10% non-
17 GAAP operating margin going forward.”

18 315. Further, on August 18, 2014, Wunderlich Securities issued an analyst report
19 stating, “[w]e believe **Extreme management is working closely with Lenovo** in order to
20 provide products that will complement what Lenovo is acquiring from IBM....**Implications**
21 **could be transformational.**”

22 **2. October 28, 2014 – Q1 2015 Earnings Call**

23 **(a) Berger’s Misstatement and Omissions About Field-Level**
24 **Activity with Lenovo**

25 316. On October 15, 2014, Extreme issued a press release preannouncing its
26 disappointing Q1 2015 financial results. *See supra* ¶ 265. Berger again discussed the potential
27 added value of the Lenovo partnership: “Lenovo also closed the acquisition of the IBM X86
28

1 server business. The combination of strong sales leadership, nearly completed integration and
2 the finalization of the Lenovo acquisition position us well for the remainder of our fiscal year.”

3 317. On October 28, 2014, Extreme hosted an earnings call with analysts to discuss
4 the financial results of Q1 2015 and the Company’s guidance for Q2 2015. *See supra* ¶ 279.
5 During the call, Berger expounded on Extreme’s partnership with Lenovo as a growth
6 opportunity given Lenovo’s acquisition of IBM’s server business:

7 [W]e have been working at this for well over a year now, we think that we are
8 well-positioned as this integration evolves, you wouldn't think that some of these
9 things would be hard, but Lenovo is a very big company, and getting all of our
10 products, or at least our data center products on their price list, and getting part
11 numbers and getting the ability for Lenovo sales reps to order them through the
12 Lenovo order entry and delivery process has largely been completed globally.
13 ***Getting internal sales reps that are Extreme employees sitting side-by-side with***
14 ***people in North America and China has been accomplished.*** Attendance and
15 training at global sales conferences for Lenovo has happened. So there are a
16 number of things that we've done, in addition as I mentioned there's been
17 technology exchange discussions, and we've certainly worked to the extent we're
18 able to a parallel path with some of the IBM assets as well. So everything, we
19 didn't wait for the October 1 start gun to go and begin the race. This is really a
20 race that we put a couple laps on the track over the last 14 or 15 months, but again
21 I think I think there's a lap or two to go before we see meaningful volume.

16 (i) **Falsity**

17 318. Berger’s statement in the preceding paragraph was false and misleading as
18 demonstrated by the following: (1) the account of CW4 that there was no activity at the “field”
19 level towards the alliance (including any “side-by-side” meetings between the Extreme and
20 Lenovo salesforces); (2) the account of CW7 that, from May 2013 until at least January 2015,
21 Extreme had not put in place any means for the Lenovo sales people to benefit from Extreme’s
22 product line, and thus there was no incentive for Lenovo representatives to meet with Extreme
23 sales personnel and sell Extreme’s products; and (3) Meyercord admitted on May 6, 2015, that
24 the Company did not actually know “whether or not we’re collaborating in the field” and had
25 “zero visibility into Lenovo,” creating the strong inference (especially in combination with
26 CW4’s observations) that there was a similar lack of field activity with and visibility into Lenovo
27 throughout the Class Period, including when this statement was made.
28

319. Berger's statement was false and misleading because in omitting the lack of field-level activity and visibility with Lenovo as well as the other material, adverse facts as discussed in the preceding paragraph, it created a strong impression of a state of affairs (a productive partnership that was reasonably likely to generate the promised revenue benefits) that differed in a material way from the one that actually existed. *See* Sections V.H, V.I.1., & V.I.3.

(ii) Scien

320. Berger knew, or was deliberately reckless in not knowing, that his preceding statement was false and misleading because of Meyercord's May 6, 2015 statement that Extreme still had "zero visibility" into the Lenovo partnership's ability to drive Extreme's revenues. Given that CWs reported a lack of field-level activity between Lenovo and Extreme sales personnel during the Class Period (*see* ¶¶ 149-150 *supra*) and Meyercord's admission of "zero visibility" into Lenovo shortly after the Class Period, there is a strong inference that there was a similar lack of field activity with and visibility into Lenovo in October 2014. Further, Berger had direct access to such information because he was **acting head of Sales** until earlier the same month (as discussed in ¶¶ 135-138, 141, 405-409, *supra*), including by leading quarterly sales calls and the global sales conference in Las Vegas, which occurred just three months before this statement, where such lack of Lenovo "field" level activity and resulting lack of revenues reasonably would have been discussed.

321. As noted above, Berger's compensation agreement contained a highly unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the Company stock increased to \$6.00 per share and stayed above that price target for 30 days. Berger was then incentivized to maintain or further inflate the price of Extreme's stock, including by making false and misleading statements about the Lenovo partnership, in order to maintain or increase the value of his 900,000 options. Berger's potential profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share) was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000.

(b) **Berger’s Misstatement and Omissions About Lenovo’s
“Certain[] . . . Revenue Impact”**

322. Berger also continued to assure investors that Extreme would see the benefits of the Lenovo partnership in the near future and the substantial revenue obtained from the partnership would set Extreme up to meet the Company’s revenue growth commitments:

[O]ur partnership with Lenovo took another step forward when they completed the acquisition of the IBM X86 server business on October 1. There is no longer any doubt that this will happen. We continue to make progress each day towards realizing the potential of this agreement, and reiterate that we expect significant results by the fourth quarter.

. . . .*And then Lenovo has certainly by then [June 2015] we believe will have double-digit revenue impact.* . . .

(i) **Falsity**

323. Berger’s statement above that “*certainly*” the Lenovo partnership would drive “*double-digit revenue impact*” by June 2015 was false and misleading because of the following adverse, material facts, which demonstrate that it lacked a reasonable basis when made: (1) that there was no activity at the “field” level towards the alliance (per the account of CW4), nor did Lenovo sales people have any reason to sell Extreme’s products (per the account of CW7), and thus there was no way to generate increased sales revenues, much less 10% or more by specifically June 2015; (2) as Meyercord later admitted, *inter alia*, that Extreme had “**zero visibility**” into Lenovo as a potential revenue source, and could provide “nothing tangible” about when the partnership would contribute any revenue (*see* Sections V.I.1 & V.I.3.); and (3) not only did Extreme not experience a double-digit revenue impact from Lenovo by June 2015, but indeed Lenovo never became a 10% revenue contributor (*see* Section V.I.3.), such that one of Meyercord’s first acts as new CEO was to “take it off the table” as a potential revenue source entirely due to the fact that it was contributing “nothing tangible” (*see* Section V.I.3.).

324. To the extent the statement conveyed Berger’s opinion, it was misleading because it lacked a reasonable basis and omitted Extreme’s lack of field-level activity with Lenovo and Extreme’s “zero visibility” into the partnership’s ability to drive Extreme’s revenues (such that Meyercord eventually had to “just take it off the table” as a revenue contributor only seven

months later, on May 21, 2015)—facts which would conflict with what a reasonable investor would understand from the statement itself.

(ii) Scienter

325. As CEO, Berger knew, or was deliberately reckless in not knowing, that his preceding statement was false and misleading because of Meyercord’s May 6, 2015 statement that Extreme still had “zero visibility” into the Lenovo partnership’s ability to drive Extreme’s revenues. Given that CWs reported a lack of field-level activity between Lenovo and Extreme sales personnel during the Class Period (*see* ¶¶ 149-150 *supra*) and Meyercord’s admission of “zero visibility” into Lenovo shortly after the Class Period, there is a strong inference that there was a similar lack of field activity with and visibility into Lenovo in October 2014. Further, Berger had direct access to such information because he was **acting head of Sales** until earlier the same month (as discussed in ¶¶ 135-138, 141, 405-409, *supra*), including by leading quarterly sales calls and the global sales conference in Las Vegas, which occurred just three months before this statement, where such lack of Lenovo “field” level activity and resulting lack of revenues reasonably would have been discussed.

326. As noted above, Berger’s compensation agreement contained a highly unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the Company stock increased to \$6.00 per share and stayed above that price target for 30 days. Berger was then incentivized to maintain or further inflate the price of Extreme’s stock, including by making false and misleading statements about the Lenovo partnership, in order to maintain or increase the value of his 900,000 options. Berger’s potential profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share) was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000.

(c) Market Reactions to the Misstatements and Omissions

327. Investors reacted positively to these statements. After the October 28, 2014 earnings call, Extreme’s stock price increased approximately **15%** to an opening price of \$3.79 per share on October 29, 2014 from a closing price of \$3.30 per share on October 28, 2014 on unusually heavy trading volume of 3.9 million shares.

1 328. Analysts also reacted positively to Defendant's false and misleading statements
 2 and omissions. An analyst from Craig-Hallum commented on October 29, 2014 that
 3 "management is confident the company can see return to strong year/year growth beginning in
 4 the June quarter as **Lenovo could drive double digit millions of quarterly revenue.**"
 5 Buckingham Research Group also published an analyst report on October 29, 2014, similarly
 6 stating: "**We continue to think Lenovo remains the biggest potential catalyst for the top**
 7 **line**, and management has taken a decidedly optimistic tone regarding the partnership with the
 8 closing of the IBM...server business now complete. Against this backdrop, management
 9 expects a material revenue impact from Lenovo contribution in F2H15."

10 3. January 28, 2015 – Q2 2015 Earnings Call

11 329. On January 28, 2015, Extreme hosted an earnings call with analysts to discuss
 12 the financial results for Q2 2015 and guidance for Q3 2015. *See supra* ¶ 295. During the call,
 13 Berger again touted the strength of Extreme's partnership with Lenovo and explained that the
 14 delay in the realization of revenues from the Lenovo partnership was due to Lenovo's delay in
 15 the acquisition of IBM's server business:

16 Our partnership with Lenovo strengthened during the quarter on many fronts.
 17 Most notably, we were selected as their networking partner for their high-
 18 performance computing solution that we jointly announced at the Supercomputing
 19 Conference in November. We have continued productive discussions at all levels
 20 with Lenovo, as our partnership with them continues to evolve.

19 ...

20 [W]e continue to make progress almost on a daily basis with Lenovo, across the
 21 board. The high-performance computing, we actually -- that was mostly won
 22 before even the acquisition closed, competing against the captive networking
 23 business inside of -- which is now inside of Lenovo. So we're seeing solid
 24 progress there. Now, all of our products are on their price list, including wireless.

23 (a) Berger's Misstatement and Omissions

24 330. In this context, an analyst then questioned Berger about whether there was any
 25 new information causing Extreme to state that the revenue from the Lenovo partnership will be
 26 delayed. Berger responded by making the following false and misleading reassurances:

27 [Analyst]: going back to this Lenovo issue that I think is the big instrumental
 28 here. So, all along, we've known that it's a big, complicated deal and a lot of
 moving parts and geographic challenges. So **I think what I'm struggling with**
today is, what's different, or what's changed?

1 Part of what I'm wondering is, Extreme is a pretty small company, a small part of
 2 this. And is it simply that you're not tight enough in the discussions; it is sort of
 3 after the fact? Or did something actually change in terms of the [Lenovo-IBM]
 4 integration? Or are there challenges that weren't anticipated? That's what I'm
 5 really trying to focus on, is – what's different from what you knew a few months
 6 ago on this integration?

7 [Berger:] Well, on the positive side, *we are exactly where we thought we would*
 8 *be on things like* being on the price list, being in their literature, *having airtime*
 9 *with the legacy Lenovo salesforce.*

10 (b) Falsity

11 331. Berger's statement in the preceding paragraph was false and misleading because
 12 Extreme was not "*exactly where we thought we would be on things like . . . having airtime with*
 13 *the legacy Lenovo salesforce,*" as demonstrated by the following: (1) the account of CW4 that
 14 there was no activity at the "field" level towards the alliance (including any "airtime," *i.e.*,
 15 meetings, with Lenovo's salesforce); (2) the account of CW7 that, from May 2013 until at least
 16 January 2015, Extreme had not put in place any means for the Lenovo sales people to benefit
 17 from Extreme's product line, and thus there was no incentive for the Lenovo salesforce to meet
 18 with, or dedicate "airtime" to, Extreme's salesforce, nor any reason for them to sell Extreme's
 19 products; and (3) Meyercord admitted on May 6, 2015, that the Company did not actually know
 20 "whether or not we're collaborating in the field" and had "zero visibility into Lenovo," creating
 21 the strong inference (especially in combination with CW4's observations) that there was a
 22 similar lack of field activity with and visibility into Lenovo throughout the Class Period,
 23 including when this statement was made. In light of the foregoing omitted facts, it was materially
 24 false and misleading for Berger to represent that the Company was "exactly" where Defendants
 25 thought it would be, *i.e.*, on track with, the Lenovo partnership at this time.

26 332. Berger's statement was false and misleading because in omitting the lack of
 27 field-level activity and visibility with Lenovo as well as the other material, adverse facts as
 28 discussed in the preceding paragraph, it created a strong impression of a state of affairs (a
 productive partnership that was reasonably likely to generate the promised revenue benefits)

1 that differed in a material way from the one that actually existed. *See* Sections V.H, V.I.1., &
 2 V.I.3.

3 (c) **Scienter**

4 333. Berger knew, or was deliberately reckless in not knowing, that this statement was
 5 false and misleading because of Meyercord's May 6, 2015 statement that Extreme still had "zero
 6 visibility" into the Lenovo partnership's ability to drive Extreme's revenues. Given that CWs
 7 reported a lack of field-level activity between Lenovo and Extreme sales personnel during the
 8 Class Period (*see* ¶¶ 149-150 *supra*) and Meyercord's admission of "zero visibility" into Lenovo
 9 shortly after the Class Period, there is a strong inference that there was a similar lack of field
 10 activity with and visibility into Lenovo in January 2015. Further, Berger had direct access to
 11 such information because he was **acting head of Sales** until only four months prior (as discussed
 12 in ¶¶ 135-138, 141, 405-409, *supra*), including by leading quarterly sales calls and the global
 13 sales conference in Las Vegas, which occurred just six months before this statement, where such
 14 lack of Lenovo "field" level activity and resulting revenues reasonably would have been
 15 discussed.

16 334. As noted above, Berger's compensation agreement contained a highly unusual
 17 feature wherein he earned a total of 900,000 Extreme stock options when the price of the
 18 Company stock increased to \$6.00 per share and stayed above that price target for 30
 19 days. Berger was then incentivized to maintain or further inflate the price of Extreme's stock,
 20 including by making false and misleading statements about the Lenovo partnership, in order to
 21 maintain or increase the value of his 900,000 options. Berger's potential profit during the Class
 22 Period on those shares (based on the Class Period high of \$8.14 per share) was in excess of \$4.4
 23 million, or almost **nine times** his baseline annual salary of \$500,000.

24 (d) **Market Reactions to the Misstatements and Omissions**

25 335. The market reacted favorably to Defendants' assurances that although the
 26 revenues from the Lenovo agreement would be delayed, Lenovo would still have a big impact
 27 on Extreme's revenues when it comes to fruition. Accordingly, after the January 28, 2015
 28

1 earnings call, the Company's stock price increased by 9%, closing at \$3.04 per share on January
2 29, 2015 from a close of \$2.78 per share the day before.

3 336. Analysts also reacted favorably to Defendants' reassuring statements. For
4 example, Buckingham Research Group published a report on January 29, 2015 that stated:

5 Citing the complicated nature of the **Lenovo integration**, later than expected
6 timing on E-rate contribution and the ongoing sales force realignment,
7 management pushed out its target of 10% operating margin and 10% YOY growth
8 exiting FY15 by 2-4 quarters. **We continue to believe that revenue catalysts**
9 **have the potential to eventually contribute materially to the top line**, and we
10 think street estimates and investors were already pricing in a reset of expectations
11 with regards to timing.

12 4. April 9, 2015 – The Truth Was Fully Revealed¹⁰

13 337. As noted above, on April 9, 2015, after the close of trading, the Company
14 preannounced that it would miss its previously issued guidance.

15 338. Extreme's stock collapsed as a result of these disclosures. Shares lost
16 approximately 25% of their value, falling from a close of \$3.24 per share on April 9, 2015 to
17 \$2.50 per share on April 10, 2015, on 10.1 million shares traded before trading was halted.

18 339. The market was surprised, as evidenced by the analyst reports issued on April 10,
19 2015. Analysts drew a direct connection between the missed earnings guidance, White's
20 departure, integration problems, **the unlikelihood of a meaningful revenue contribution from**
21 **the Lenovo partnership**, and the Company's overall financial health. For example, on April 10,
22 2015, Wunderlich Securities issued an analyst report downgrading its rating from "Buy" to
23 "Hold" and reducing its target price **by more than half**, from \$6.00/share to \$2.80/share. The
24 analyst report clarified that Extreme's announcements the previous day were the cause of its
25 downgrade, stating:

26 Yesterday after regular trading, Extreme (EXTR) continued the pattern of missing
27 expectations in alternating quarters with a F3Q15 warnings of magnitude
28 comparable to that of F1Q15, except that estimates have come down since
then....**The risk is that Lenovo**, like the IBM (IBM-NR) business it acquired,
simply goes with the path of lead customer resistance when it comes to data

¹⁰ As noted below, Defendants' statements on January 14, 2015 were also a partial corrective disclosure of the falsity of their statements regarding the Lenovo partnership.

center networks and that prospects for data center networking success degrade to a quixotic fantasy for Extreme.

340. This revelation was confirmed by the revelations that took place on April 21, May 6, and May 21, 2015, after the end of the class period. *See* Sections V.G.3 & V.I., *supra*.

C. Misstatements and Omissions Regarding Defendants’ “Commitment” to Achieve 10% Revenue Growth and 10% Operating Margin by June 2015

1. May 6, 2014 – Q1 2014 Earnings Call

(a) Berger’s Misstatements and Omissions

341. On May 6, 2014, Extreme hosted an earnings call with analysts to discuss the financial results of Q3 2014 and the Company’s guidance for Q4 2014. *See supra* ¶¶ 204-206. On the call, Berger reiterated that the completion of the Enterasys integration and the Lenovo partnership will be significant factors in the Company’s “*commitment*” of achieving “double digit [*i.e.*, at least 10%] revenue growth” and 10% operating margin by the second half of 2015:

I want to again reemphasize our plan and our commitment to attain double digit revenue growth by the second half of 2015 as we complete the [Enterasys] integration, realize the benefits of our key partnerships like Lenovo and Ericsson, and align our efforts between the growth opportunities in the wireless and datacenter segments.

Over the same period we are committed to achieve a 10% operating margin on a non-GAAP basis. My belief in our ability to achieve these goals has only strengthened since our last earnings call.

...

Our conviction over our goals for the second half and the impact that some of the growth engines like Lenovo, wireless, datacenter, and completion of the integration will bring to the Company has not weakened at all. In fact, if anything, it has strengthened and the fact that we are two months ahead on our ERP integration I take as a very positive sign for that and that even in the midst of this integration we were able to show revenue growth in this quarter so we will keep pushing ahead....

(i) Falsity

342. Berger’s statements regarding Extreme’s “*plan and commitment*” to achieve 10% revenue growth or 10% operating margin by June of 2015, based in substantial part on the successful integration of Enterasys (including attaining related synergies), and the Lenovo

partnership, were false and misleading because: (1) the integration was a failure, lacking an integration plan, including a plan setting forth how the two salesforces would be integrated and other steps to cut costs and obtain synergies, a product roadmap and a go-to-market strategy, which resulted in substantial integration problems and loss of revenue (*see* Sections V.G. & V.I., *supra*); (2) Extreme had “zero visibility” into the Lenovo partnership’s ability to drive Extreme’s revenue and there was no “field” level activity towards that alliance, and thus no ability to generate sales and drive revenues based on Lenovo (*see* Sections V.H. & V.I., *supra*.); and (3) Extreme never achieved these commitments (*see* ¶¶ 83, 159.). Thus, Berger’s statements were false and misleading because they lacked a reasonable basis and omitted the material, adverse facts referenced above, which undermined this “commitment” and which would conflict with what a reasonable investor would understand from the statement itself.

(ii) Scienter

343. Berger knew, or was deliberately reckless in not knowing, that these statements were false and misleading because at this time he knew of material, adverse facts regarding the Enterasys integration that undermined his “commitment” to achieving 10% revenues and 10% operating margin by June 2015. Specifically, according to CW3, Berger knew of the lack of an integration plan at this time based on his participation in quarterly sales calls after the acquisition where sales personnel questioned him about such a plan, thus showing that the Company did not have a plan at that time. *See* ¶¶ 103-105, *supra*. Indeed, Berger was telling the salesforce that the integration plan, including notably the plan to achieve integration synergies, was still “TBD” as late as July/August of 2014, at the annual global sales conference in Las Vegas. *See* ¶ 104, *supra*. Further, Berger knew about the lack of an integration plan to merge the salesforces and the resulting, ongoing salesforce integration problems at this time based on his then-recent conversation with CW1 in April 2014, wherein they discussed such issues, including the replacement or reassignment of legacy Extreme personnel based on legacy Enterasys executives’ individual preferences—*i.e.*, subjective, *ad hoc* factors that were not tied to any past performance metrics—rather than according to a systematic plan. *See* ¶¶ 109, 122, & 125, *supra*. Berger also knew about the lack of an integration plan and related integration problems due to his role as

1 CEO overseeing a merger of equals, which was a core transaction for the Company. *See* Section
2 VII.B., *infra*.

3 344. Berger also knew, or was deliberately reckless in not knowing, that these
4 statements were false and misleading because at this time he knew of material, adverse facts
5 regarding Extreme's Lenovo partnership that undermined his "commitment" to achieving 10%
6 revenues and 10% operating margin by June 2015. Specifically, as CEO, Berger knew, or was
7 deliberately reckless in not knowing, that the Lenovo partnership could not contribute to
8 Extreme's revenues because of Meyercord's May 6, 2015 statement that Extreme still had "zero
9 visibility" into the Lenovo partnership's ability to drive Extreme's revenues. Given that CWs
10 reported a lack of field-level activity between Lenovo and Extreme sales personnel during the
11 Class Period (*see* ¶¶ 149-150 *supra*) and Meyercord's admission of "zero visibility" into Lenovo
12 shortly after the Class Period, there is a strong inference that there was a similar lack of field
13 activity with and visibility into Lenovo in May 2014.

14 345. Moreover, as noted above, Berger's compensation agreement contained a highly
15 unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the
16 Company stock increased to \$6.00 per share and stayed above that price target for 30
17 days. Berger was then incentivized to maintain or further inflate the price of Extreme's stock,
18 including by making false and misleading statements about the success of the Enterasys
19 acquisition and the Lenovo partnership, in order to maintain or increase the value of his 900,000
20 options. Berger's potential profit during the Class Period on those shares (based on the Class
21 Period high of \$8.14 per share) was in excess of \$4.4 million, or almost **nine times** his baseline
22 annual salary of \$500,000.

23 **(b) Market Reactions to the Misstatements and Omissions**

24 346. The market reacted favorably to Berger's statements about his commitment to
25 achieve the 10% revenue growth and 10% operating margin, based in part on the Enterasys
26 integration and the positive impact the Lenovo partnership that were expected to have on the
27 Company's revenues in the near future.

1 347. Analysts also took this “commitment” seriously. For example, on May 7, 2014,
 2 Craig-Hallum issued an analyst report maintaining its positive “Buy” rating despite negative
 3 news from the Company the previous day, including high-level executive turnover and reported
 4 earnings at the low end of prior guidance. The report justified its rating because “management
 5 believes it can achieve 10% operating margins exiting the year, up from 2.3% in the current
 6 quarter,” noting “[w]e expect growth to be driven by key partnerships with Lenovo.” The report
 7 further noted that “[a]lthough Extreme Networks has experienced some hiccups integrating two
 8 equal sized companies, management remains confident in its ability to find \$30-\$40 million in
 9 synergies” on schedule, and therefore “we expect synergies to begin . . . during the September
 10 quarter.”

11 348. Likewise, a Wunderlich Securities analyst report from August 15, 2014
 12 maintained its positive “Buy” rating and updated its model because “[m]anagement re-iterated
 13 the goal of 10%+ revenue growth and 10% + operating margins exiting F2015,” further noting
 14 that “[m]anagement appears on track to achieve targets.”

15 349. Wunderlich Securities published an analyst report on August 15, 2014 entitled
 16 “Extreme Networks, Inc. (EXTR: \$5.35): Good Progress in F4Q14 On Track to Make Goals.”
 17 The report maintained its positive “Buy” rating and updated its model because “[m]anagement
 18 re-iterated the goal of 10%+ revenue growth and 10% + operating margins exiting F2015,”

19 350. Similarly, a report from Craig-Hallum the same day continued to maintain its
 20 positive “Buy” rating in part because “[m]anagement believes that given the . . . positive impact
 21 of its partnership with Lenovo, the company can achieve double digit year/year revenue growth
 22 and 10% operating margins in the June 2015 quarter.”

23 **2. October 28, 2014 – Q1 2015 Earnings Call**

24 **(a) Berger’s Misstatement and Omissions**

25 351. On October 28, 2014, Extreme hosted an earnings call with analysts to discuss the
 26 financial results of Q1 2015 and the Company’s guidance for Q2 2015. *See supra* ¶ 279. Berger
 27 again assured investors that Extreme was on track to realize its commitment of 10% year-over-
 28

1 year growth and 10% operating margin based in part on the successful integration of Enterasys
2 and resultant “synergies,” and also based in part on the Lenovo partnership:

3 Strong sales leadership, new partner and service programs, advancing Lenovo
4 relationships, return of E-Rate, and continued new product introductions, give us
5 confidence in our ability to improve our top line performance going forward.
6 Coupled with strong focus on realizing the promised synergies from the
7 acquisition, and ongoing focus on cost reductions across the board, we expect to
8 see substantially improved bottom line performance as well. ***We stand by our
commitment for 10% year-over-year revenue growth by the fourth fiscal
quarter, at a 10% operating margin or better.***

8 (i) **Falsity**

9 352. Berger’s statement above that Defendants “***stand by [their] commitment***” to
10 achieve 10% revenue growth and 10% operating margin by June of 2015, based in substantial
11 part on the successful integration of Enterasys (including attaining related synergies), and the
12 Lenovo partnership, was false and misleading because: (1) the integration was a failure, lacking
13 an integration plan, including a plan setting forth how the two salesforces would be integrated
14 and other steps to cut costs and obtain synergies, a product roadmap and a go-to-market strategy,
15 which resulted in substantial integration problems and loss of revenue (*see* Sections V.G. & V.I.,
16 *supra*); (2) Extreme had “zero visibility” into the Lenovo partnership’s ability to drive
17 Extreme’s revenue and there was no “field” level activity towards that alliance, and thus no
18 ability to generate sales and drive revenues based on Lenovo (*see* Sections V.H. & V.I., *supra*.);
19 and (3) Extreme never achieved these commitments (*see* ¶¶ 83, 159.). Thus, Berger’s statement
20 was false and misleading because it lacked a reasonable basis and omitted the material, adverse
21 facts referenced above which undermined this “commitment” and which would conflict with
22 what a reasonable investor would understand from the statement itself.

23 (ii) **Scienter**

24 353. Berger knew, or was deliberately reckless in not knowing, that these statements
25 were false and misleading because at this time he knew of material, adverse facts regarding the
26 Enterasys integration that undermined his “commitment” to achieving 10% revenues and 10%
27 operating margin by June 2015. Specifically, according to CW3, Berger knew of the lack of an
28 integration plan at this time based on his participation in quarterly sales calls after the acquisition

1 where sales personnel questioned him about such a plan, thus showing that the Company did not
 2 have a plan at that time. *See* ¶¶103-105, *supra*. Indeed, Berger was telling the salesforce that the
 3 integration plan, including notably the plan to achieve integration synergies, was still “TBD” just
 4 three months earlier—in July/August of 2014, at the annual global sales conference in Las
 5 Vegas. *See* ¶104, *supra*. Further, Berger knew about the lack of an integration plan to merge the
 6 salesforces and the resulting, ongoing salesforce integration problems at this time based on his
 7 conversation with CW1 in April 2014, wherein they discussed such issues, including the
 8 replacement or reassignment of legacy Extreme personnel based on legacy Enterasys executives’
 9 individual preferences—*i.e.*, subjective, *ad hoc* factors that were not tied to any past performance
 10 metrics—rather than according to a systematic plan. *See* ¶¶ 109, 122, & 125, *supra*.
 11 Additionally, Berger knew such information specifically at this time because CW3 spoke directly
 12 with Berger about the continuing salesforce integration problems that resulted from the lack of
 13 an integration plan at approximately this time, in October and/or November 2014. *See* ¶ 126,
 14 *supra*. Berger also knew about the lack of an integration plan and related integration problems
 15 due to his role as CEO overseeing a merger of equals, which was a core transaction for the
 16 Company. *See* Section VII.B., *infra*. Further, Berger had been serving as the **acting head of**
 17 **Sales** from May 2014 and up until about a month before this statement (October 1, 2014, when
 18 White was hired as CRO); therefore, Berger had been directly overseeing the salesforce and
 19 related integration efforts, and thus had direct access to the lack of an integration plan and the
 20 related, persisting salesforce integration problems. *See* ¶¶ 135-138, 141, 405-409, *supra*.
 21 Indeed, Berger admitted on the August 14, 2014 call that he had been closely involved in the
 22 salesforce integration since May 2014. *See* ¶ 407, *infra*.

23 354. Berger also knew, or was deliberately reckless in not knowing, that these
 24 statements were false and misleading because at this time he knew of material, adverse facts
 25 regarding Extreme’s Lenovo partnership that undermined his “commitment” to achieving 10%
 26 revenues and 10% operating margin by June 2015. Specifically, as CEO, Berger knew, or was
 27 deliberately reckless in not knowing, that the Lenovo partnership could not contribute to
 28 Extreme’s revenues because of Meyercord’s May 6, 2015 statement that Extreme still had “zero

visibility” into the Lenovo partnership’s ability to drive Extreme’s revenues. Given that CWs reported a lack of field-level activity between Lenovo and Extreme sales personnel during the Class Period (*see* ¶¶ 149-150 *supra*) and Meyercord’s admission of “zero visibility” into Lenovo shortly after the Class Period, there is a strong inference that there was a similar lack of field activity with and visibility into Lenovo in May 2014. Further, Berger had direct access to such information because he was **acting head of Sales** until earlier the same month (as discussed in ¶¶ 135-138, 141, 405-409, *supra*), including by leading quarterly sales calls and the global sales conference in Las Vegas, which occurred just three months before this statement, where such lack of Lenovo “field” level activity and resulting lack of revenues reasonably would have been discussed.

355. Moreover, as noted above, Berger’s compensation agreement contained a highly unusual feature wherein he earned a total of 900,000 Extreme stock options when the price of the Company stock increased to \$6.00 per share and stayed above that price target for 30 days. Berger was then incentivized to maintain or further inflate the price of Extreme’s stock, including by making false and misleading statements about the success of the Enterasys acquisition and the Lenovo partnership, in order to maintain or increase the value of his 900,000 options. Berger’s potential profit during the Class Period on those shares (based on the Class Period high of \$8.14 per share) was in excess of \$4.4 million, or almost **nine times** his baseline annual salary of \$500,000.

(b) Arola’s Misstatement and Omissions

356. Additionally, during this call, Arola reiterated Extreme’s unchanged commitment: “I want to remind you that ***I remain committed to year-over-year revenue growth of 10%, and 10% operating margin in the fourth quarter of 2015.***”

(i) Falsity

357. Arola’s statement above that he “***remain[ed] committed***” to 10% revenue growth and 10% operating margin by June of 2015, based in substantial part on the successful integration of Enterasys (including attaining related synergies), and the Lenovo partnership, was false and misleading because: (1) the integration was a failure, lacking an integration plan,

1 including a plan setting forth how the two salesforces would be integrated and other steps to cut
 2 costs and obtain synergies, a product roadmap and a go-to-market strategy, which resulted in
 3 substantial integration problems and loss of revenue (*see* Sections V.G. & V.I., *supra*); (2)
 4 Extreme had “zero visibility” into the Lenovo partnership’s ability to drive Extreme’s revenue
 5 and there was no “field” level activity towards that alliance, and thus no ability to generate sales
 6 and drive revenues based on Lenovo (*see* Sections V.H. & V.I., *supra*.); and (3) Extreme never
 7 achieved these commitments (*see* ¶¶ 83, 159). Thus, Arola’s statement was false and misleading
 8 because it lacked a reasonable basis and omitted the material, adverse facts referenced above
 9 which undermined this “commitment” and which would conflict with what a reasonable investor
 10 would understand from the statement itself.

11 **(ii) Scienter**

12 358. Arola knew, or was deliberately reckless in not knowing, that his statement were
 13 false and misleading because at this time he knew of material, adverse facts regarding the
 14 Enterasys integration that undermined his “commitment” to achieving 10% revenues and 10%
 15 operating margin by June 2015. Specifically, as CFO, Arola knew, or was deliberately reckless
 16 in not knowing, that his statement was false and misleading because he knew, based on his
 17 position as well as attendance at quarterly sales meetings and the 2014 annual global sales
 18 conference in Las Vegas three months earlier, where such matters were openly discussed, that
 19 Extreme had no integration plan, including a plan for how the Company would achieve \$30
 20 million to \$40 million in synergies, which undermined his statements. *See* Sections V.G. & V.I.,
 21 *supra*. Moreover, Arola observed Berger acknowledge at this Las Vegas meeting that the
 22 salesforce integration was still not complete, that it still needed a plan, including a plan to
 23 achieve integration synergies, and that the plan was still “TBD.” *Id.* Arola also knew about the
 24 lack of an integration plan and related integration problems due to his role as CFO overseeing a
 25 merger of equals, which was a core transaction for the Company. *See* Section VII.B., *infra*.

26 359. Arola also knew, or was deliberately reckless in not knowing, that these
 27 statements were false and misleading because at this time he knew of material, adverse facts
 28 regarding Extreme’s Lenovo partnership that undermined his “commitment” to achieving 10%

1 revenues and 10% operating margin by June 2015. Specifically, as CFO, Arola knew, or was
 2 deliberately reckless in not knowing, that the Lenovo partnership could not contribute to
 3 Extreme's revenues because of Meyercord's May 6, 2015 statement that Extreme still had "zero
 4 visibility" into the Lenovo partnership's ability to drive Extreme's revenues. Given that CWs
 5 reported a lack of field-level activity between Lenovo and Extreme sales personnel during the
 6 Class Period (*see* ¶¶ 149-150 *supra*) and Meyercord's admission of "zero visibility" into Lenovo
 7 shortly after the Class Period, there is a strong inference that there was a similar lack of field
 8 activity with and visibility into Lenovo in May 2014.

9 (c) **Market Reactions to the Misstatements and Omissions**

10 360. Investors reacted positively to these false and misleading statements and
 11 omissions. After the October 28, 2014 earnings call, Extreme's stock price increased
 12 approximately **15%** to an opening price of \$3.79 per share on October 29, 2014 from a closing
 13 price of \$3.30 per share on October 28, 2014 on unusually heavy trading volume of 3.9 million
 14 shares.

15 361. Analysts also reacted positively to Defendants' false and misleading statements
 16 and omissions. For example, Buckingham Research Group published an analyst report on
 17 October 29, 2014, which increased its price target, including because management "**reiterated**"
 18 Extreme's commitment of "double digit revenue growth by F4Q15 with a 10% OM [operating
 19 margin]," which would be "driven by double-digit Lenovo contribution" and other factors.
 20 Likewise, an October 28, 2014 analyst report from Raymond James maintained its "outperform"
 21 rating, noting as "the call's **highlight**" management's reiteration of the 10% revenue and
 22 operating margin figures by June 2015, which were "achievable based on . . . initial
 23 contributions from the Lenovo partnership."

24 362. Similarly, an analyst from Craig-Hallum commented on October 29, 2014 that
 25 "management is confident the company can see return to strong year/year growth beginning in
 26 the June quarter as **Lenovo could drive double digit millions of quarterly revenue.**"
 27
 28

1 **3. January 14, 2015 – Needham Growth Conference – The Truth Was**
 2 **Partially Revealed**

3 363. On January 14, 2015, Arola and Norman Rice, SVP of Corporate Development,
 4 made a public presentation on behalf of Extreme at the Needham Growth Conference. Arola
 5 touted the success of the integration, its customers, and quality of its products and services.
 6 However, toward the end of the day, Arola also partially disclosed the truth about the uncertainty
 7 of the synergies and revenue growth the Company said would materialize by the upcoming end
 8 of its fiscal year of 2015, when he implied that Extreme would not be able to deliver on its
 9 commitment of 10% revenue growth and 10% operating margin by the end of fiscal year 2015,
 10 including specifically based on the Lenovo partnership. In response to a question from an
 11 audience member about when to expect meaningful revenue from Lenovo, Arola stated:

12 I'll start by saying because we are in a quiet period I don't want to comment on a
 13 future forecast. But with that said, we are currently looking at what our second
 14 half looks at right now, **evaluating where we are with things like our Lenovo**
 15 **relationship, how much business we'll get in our quarter-four timeframe in**
 16 **relation to that business....** But we are currently evaluating that top line and
 17 operating expenses in bottom line. We are looking at alternatives. If something
 18 didn't materialize and we stayed at levels we are, that we would go out and look
 19 at how we are going to restructure the business in essence to make sure we can
 20 drive bottom line. And we'll provide updates when we come to earnings. But,
 21 again, **I don't want to make a comment about the 10% and the 10%**, but our
 22 long-term view of the business if you ask me should be running this business at a
 23 10% operating margin pretty consistently over time. **The question is as we are**
 24 **evaluating it now**, we will make some comments on our earnings call more
 25 specifically about timing of that.

26 364. As a result of this partial corrective disclosure that Extreme was reevaluating its
 27 commitment to achieving 10% growth and 10% operating margin, including specifically based
 28 on the Lenovo partnership, and was backing away from its commitment to achieve the same by
 the end of fiscal year 2015, Extreme's stock price consistently declined for a two week period.¹¹
 On January 15, 2015, the first day of trading after the Needham Growth Conference, Extreme's
 stock fell over 4% from \$3.36 per share on January 14, 2015 to \$3.20 per share. Additionally,

¹¹ As noted above, such statements were also a partial corrective disclosure with respect to Defendants' misstatements and omissions regarding the Lenovo partnership.

1 on January 16, 2015, Extreme's stock fell another 4.6% from \$3.0 per share to \$3.05 per share.
 2 This decline in stock price continued until January 28, 2015.

3 365. Securities analysts also reacted negatively to Arola's partial disclosure. For
 4 example, a Craig-Hallum analyst report dated January 22, 2015 attributed the share price's
 5 subsequent decline to Arola's lack of enthusiasm and evasiveness regarding management's
 6 commitment to achieve 10% revenue growth and 10% operating margin by June 2015. He
 7 observed that "shares have fallen over 10% since presenting" at the January 14 conference
 8 because, the analyst believed, "**management sounded less enthusiastic** about its previous
 9 outlook for 10% y/y [year-over-year] growth and 10% operating margins for the upcoming June
 10 quarter." The analyst further noted that "[w]hen asked about meaningful revenue from
 11 **Lenovo kicking in, management side stepped the question** and said it was still evaluating and
 12 mentioned if something did not materialize, the company would address operating expenses."

13 366. The following day, an analyst report from the Buckingham Research Group
 14 interpreted management's statements as signifying bad news regarding the timing of any
 15 benefits, including specifically based on the Lenovo partnership: "We think material **revenue**
 16 **from the Lenovo partnership will likely not occur before 2H15**, ramping in 2016." The
 17 analyst further noted that, after the disclosure, "we think the targeted 10% revenue growth and
 18 10% OM [operating margin] may be somewhat challenging."

19 4. January 28, 2015 – The Truth Was Confirmed

20 367. On January 28, 2015, Extreme hosted an earnings call with analysts to discuss its
 21 results for the Q2 2015 and its guidance for Q3 2015. Berger and Arola participated in this call
 22 with analysts. During the call Berger admitted that the Company would not be able to deliver the
 23 10% year-over-year growth that Defendants had confidently committed to from the beginning of
 24 the Enterasys acquisition. Berger stated:

25 In the past, **we committed to 10% year-over-year revenue growth, and 10%**
 26 **operating margin in the fourth fiscal quarter of this year. Our commitment**
 27 **was based on the expected lift from improved sales execution, the return of E-**
 28 **Rate, and improved sales and channel execution, and from our relationship with**
Lenovo.

1 We strongly believe these forces will begin to come to have an impact throughout
 2 the rest of the year and beyond. However, it is now clear that it will take longer
 for them to have enough impact to deliver 10% year-over-year growth.

3 368. As stated above, the Company never achieved the 10% operating margin or
 4 double-digit revenue growth, either by the scheduled second half of fiscal year 2015 or
 5 thereafter. *See* ¶ 83.

6 **VII. ADDITIONAL ALLEGATIONS SUPPORTING THE INDIVIDUAL**
 7 **DEFENDANTS' SCIENTER**

8 369. At all relevant times, the Individual Defendants acted with scienter in making
 9 materially false and misleading statements and omissions during the Class Period discussed
 10 above. Each of the Individual Defendants had actual knowledge that the statements and
 11 omissions made by him were false and misleading, or acted with deliberate reckless disregard
 12 for the truth or falsity of those statements and omissions. Each of the Individual Defendants'
 13 intent to deceive, or deliberately reckless disregard for the truth, is demonstrated by substantial
 14 direct and circumstantial evidence supporting a strong inference of scienter as discussed above.
 15 The following additional allegations further support a strong inference of scienter.

16 **A. Defendant Berger's Highly Unusual Compensation Scheme**

17 370. Extreme's Board of Directors, and in particular its Chairman Ed Meyercord,
 18 brought in Berger as a replacement for the Company's previous CEO, Oscar Rodriguez.
 19 Whereas Rodriguez opposed the acquisition of Enterasys, Berger supported it. *See* ¶ 99.

20 **1. Berger's Compensation**

21 371. Berger received a base annual salary of \$500,000, eligibility to participate in the
 22 Company's "Incentive Plan" with an annual target of 100% of his annual base salary, and a one-
 23 time "Option Grant" to acquire 900,000 shares of the Company's common stock that would vest
 24 according to a standard formula.¹²

25
 26
 27 ¹² The formula provided that 25% of the "Option Grant" would vest on the first anniversary of
 28 Berger's first date of employment, with the remainder vesting monthly over the following three
 years, at a rate of 1/48th of the entire "Option Grant" each month, so long as Berger remained
 employed by Extreme.

1 372. In addition to the above, Berger was given added incentive to increase the value
 2 of Extreme stock itself, through an unusual bonus where he would receive 300,000 Extreme
 3 stock options every time Extreme's stock price stayed above a certain price for 30 days.
 4 Berger's offer letter referred to this bonus as a "Performance Option." Specifically, he would be
 5 given non-qualified stock options for 300,000 **additional** shares of Extreme stock, exercisable on
 6 **each** of the following events:

- 7 a. Once the Company's stock has traded for at least 30 consecutive trading
 8 days at or above a closing price of **\$4.00 per share**;
- 9 b. Once the Company's stock has traded for at least 30 consecutive trading
 10 days at or above a closing price of **\$5.00 per share**; and
- 11 c. Once the Company's stock has traded for at least 30 consecutive trading
 12 days at or above a closing price of **\$6.00 per share**.

13 373. Notably, pursuant to the terms of his employment contract, Berger would keep all
 14 900,000 options even if the stock price subsequently fell below the target stock prices before
 15 vesting.

16 2. **Berger's Compensation Was Unique in Extreme's History and Highly** 17 **Unusual Across Comparable Companies at the Time**

18 (a) **Berger's Bonus Plan Was Unique in Extreme's History**

19 374. The addition of Berger's "Performance Option" bonus was not just unusual, but
 20 unique in Extreme's history as a public company at the time.

21 375. The previous CEO, Oscar Rodriguez, who served as CEO from his appointment
 22 effective August 23, 2010 through his departure from the Company on April 25, 2013, received a
 23 higher annual base salary of \$550,000. Like Berger, Rodriguez was also granted eligibility to
 24 participate in the Company's "Incentive Plan" with an annual target of 100% of his annual base
 25 salary. Also like Berger, Rodriguez received a one-time "Option Grant" to acquire 900,000
 26 shares of the Company's common stock that would vest according to the same standard formula.
 27 However, in contrast, Rodriguez had no comparable incentive scheme "Performance Option"
 28 tied to Extreme's short-term stock price performance.

376. Similarly, Extreme's prior CEOs before Rodriguez also had no such Performance Option tied to Extreme's short-term stock price performance. The individual who preceded Rodriguez, Bob Corey, served as the acting CEO from October 20, 2009 until Rodriguez's appointment on August 23, 2010. Corey was the Company's CFO¹³ before he became acting CEO, and continued to receive the same annual base salary of \$375,000. Corey also continued to have the same eligibility to participate in the Company's Incentive Plan with an annual target of 60% of his annual base salary. When Corey joined as CFO, he also received and a one-time "Option Grant" to acquire 450,000 shares of the Company's common stock that would vest according to the same standard formula. When Corey became the acting CEO, he received a supplemental one-time "Additional Option" to acquire 100,000 more shares of the Company's common stock. However, Corey had no "Performance Option" tied to Extreme's short-term stock price performance, as Berger did.

377. The individual who preceded Corey as CEO, Mark Canepa, served as CEO from August 30, 2006 until his resignation on October 20, 2009. Similar to Berger, Canepa received a baseline salary of \$480,000. He was also granted eligibility to participate in the Company's "Incentive Plan" with an annual target of 70% of his annual base salary. Finally, Canepa similarly received a one-time option to acquire 850,000 shares of the Company's common stock that would vest according to the same standard formula. However, Canepa had no "Performance Option" tied to Extreme's short-term stock price performance, as Berger did.

378. The individual who preceded Canepa as CEO, Gordon Stitt, served as Extreme's CEO since he co-founded the Company in May 1996, until his retirement on August 30, 2006. As a co-founder, Stitt's salary varied year to year (*e.g.*, \$220,000 in 2003, \$165,000 in 2004, and \$370,000 in 2005) and he received options throughout his tenure pursuant to a 1996 Stock Option Plan and subsequent Amended 1996 Stock Option Plans. For instance, pursuant to that plan in fiscal year 1999, the year Extreme went public, Stitt received options to acquire 200,000 shares of company stock that vested according to the same standard formula. In 2006, the year

¹³ Corey had only become Extreme's CFO effective July 21, 2009, or only three months prior to his appointment as acting CEO.

1 Stitt retired, he received a baseline salary of \$400,000, was eligible to participate in the
 2 Company's "Incentive Bonus Plan" with an annual target of 100% of his annual base salary, and
 3 received options to acquire 250,000 shares of company stock (pursuant to the Amended 1996
 4 Stock Option Plan in 2006) that vested according to the same standard formula. However, Stitt
 5 never received any "Performance Option" tied to Extreme's short-term stock price performance
 6 comparable to Berger's.

7 **(b) Lead Plaintiff's Executive Compensation Expert Confirms that**
 8 **Berger's Bonus Plan Was Not Only Unique in Extreme's**
 9 **History, but Also Highly Unusual Compared to Its Peer**
 10 **Companies and Other Companies of Similar Size**

11 379. Further, Berger's absolute stock price-based bonus plan was not only unique in
 12 Extreme's history, but also highly unusual beyond Extreme, including among companies that
 13 Extreme identified as its peers, as well as across companies of its size and beyond.

14 380. Steven Hall, an expert in executive compensation, has been retained by counsel
 15 for Lead Plaintiff in this case. Mr. Hall's conclusions, as set forth below, are based on his 38
 16 years of experience in the field of executive compensation, his review of public documents
 17 Extreme has filed with the SEC, his review of the 16 companies that Extreme has identified as
 18 compensation comparators for the period beginning in April 2013, and his research into the
 19 executive compensation records for 1,329 other companies that are generally comparable to
 20 Extreme in terms of revenues.

21 381. Mr. Hall's relevant professional experience includes over 38 years advising
 22 company senior management and board compensation committees in the planning and
 23 implementation of senior executive compensation programs and incentives. He is a founding
 24 partner and managing director of Steven Hall & Partners, an independent compensation
 25 consulting firm specializing exclusively in the areas of executive compensation, board
 26 remuneration, and related corporate governance issues. Prior to forming Steven Hall & Partners,
 27 he served as President and co-founder at Pearl Meyer & Partners for over 15 years. He has also
 28 served as a member of the faculty of the National Association of Corporate Directors where he
 taught courses related to executive and director compensation, and best practices in

1 compensation committee governance. He is also the co-author of the book *Executive*
2 *Compensation Best Practices* and a chapter entitled *The Effective Compensation Committee*
3 included in *The Handbook of Board Governance*. He has been identified multiple times by The
4 Directorship Institute as one of the Top 100 most influential boardroom leaders. He holds an
5 M.B.A. in Accounting and a B.A. in Economics.

6 382. Lead Plaintiff engaged Mr. Hall to (i) examine the 2013 executive compensation
7 agreement between CEO Charles Berger and Extreme, and in particular the stock “Performance
8 Option” grant that was part of that agreement, which would be earned based solely on the stock
9 price of Extreme Networks hitting certain specified targets and staying above those targets for 30
10 consecutive trading days; (ii) provide an expert opinion regarding how customary such a
11 provision was in Extreme’s history and among companies similar to Extreme; and (iii) provide
12 an expert opinion as to whether this type of stock option bonus could motivate an executive to
13 make false or misleading, positive public statements about the Company or fail to disclose
14 material negative information in order to inflate Extreme’s stock price.

15 383. Mr. Hall determined that the pertinent terms of the Performance Option grant at
16 issue are as follows:

17 a. Grant of a Performance Option on 900,000 shares of the Common Stock
18 of Extreme with an exercise price of \$3.17;

19 b. Seven-year term during which the options can be exercised;

20 c. Performance Options will be earned upon the attainment of established
21 stock price targets as follows:

22 (i) 300,000 options will be earned once the Company’s stock price
23 has traded above \$4.00 per share for 30 consecutive trading days;

24 (ii) 300,000 options will be earned once the Company’s stock price
25 has traded above \$5.00 per share for 30 consecutive trading days; and

26 (iii) 300,000 options will be earned once the Company’s stock price
27 has traded above \$6.00 per share for 30 consecutive trading days;

1 d. Once earned, the options would vest and become exercisable over 2 years,
2 at a rate of 1/24th of the amount earned each month subject to continued employment at Extreme.

3 384. In order to develop his opinion, in addition to drawing on his years of experience
4 in the executive compensation industry, Mr. Hall performed the following tasks, with the
5 assistance of his professional staff:

6 a. He reviewed the compensation agreements of Extreme's CEOs before
7 Berger (Oscar Rodriguez, Bob Corey, Mark Canepa, and Gordon Stitt);

8 b. He reviewed the then-current long-term incentive compensation grants¹⁴
9 for the CEOs of the 16 peer companies reported by Extreme as their peer group in Extreme's
10 proxy filing for the fiscal year ending June 30, 2013;¹⁵

11 c. He reviewed data provided to him by Main Data Group related to
12 executive compensation for the CEOs at 412 U.S. companies with revenues between \$500
13 million and \$1 billion (comparable to Extreme's anticipated revenues of approximately \$600
14 million after its acquisition of Enterasys, which was contemplated at the time Berger entered into
15 his compensation agreement with Extreme), which identified performance metrics used by each
16 company in their long-term performance grants;

17 d. He reviewed the reported performance metrics for the long-term incentive
18 compensation grants made to each CEO of these 412 companies in 2013, the year Berger's
19 compensation package was created;

20 e. He also reviewed data provided to him by Main Data Group related to
21 executive compensation for the CEOs at 917 U.S. companies with revenues between \$1 billion
22

23 _____
24 ¹⁴ "Long-term incentive compensation grants" is an industry term that refers to cash or equity-
25 based incentive plans that provide for rewards based on a period greater than one year, similar to
26 the "Performance Options" granted to Berger by Extreme. To be clear, these long-term grants
may have short-term performance aspects. For example, although the options had a seven year
term, Mr. Berger earned 900,000 options within 8 months of when he became Extreme's CEO
due to the Company's stock price reaching established goals.

27 ¹⁵ The listed peer companies are: ADTRAN, Calix, Digi International, Emulex, Harmonic,
28 Infinera, Ixia, MRV Communications, Novatel Wireless, Oplink Communications, QLogic
Corporation, RadiSys Corporation, ShorTel, Sonus Networks, Symmetricon and Ubiquiti
Networks.

1 and \$5 billion,¹⁶ which identified performance metrics used by each company in their long-term
2 incentive compensation grants; and

3 f. He reviewed the reported performance metrics for the long-term incentive
4 compensation grants made to each CEO of these 917 companies in 2013, the year Berger's
5 compensation package was created.

6 385. Based on Mr. Hall's review of Extreme's prior CEOs' compensation agreements,
7 he determined that **none** of their plans used absolute share price as a performance metric for any
8 incentive compensation grants, like Berger's agreement.

9 386. In his review of the 16 peer companies reported by Extreme, he noted that **none**
10 of the long-term incentive compensation grants for the CEOs of those companies used absolute
11 share price as a performance metric for grants.

12 387. In his review of the 412 companies with revenues between \$500 million and \$1
13 billion, he determined that only 12 of these 412 CEO compensation packages – *i.e.*, only **2.91%**
14 – included a “performance metric” offering incentive equity grants that would be earned or vest
15 based on absolute stock price performance, like Berger's.

16 388. He further reviewed the 12 long-term incentive grants that used absolute stock
17 price as a performance measure referenced above to determine how many were made at a time
18 when the company was involved in acquiring another company. He determined that this was an
19 appropriate factor to consider because during the period after an acquisition, company executives
20 have the opportunity to inflate their company's stock price by making positive public statements
21 about how well the integration of the two companies is progressing. Adding this parameter to
22 his search, he found that only 4 of the 12 long-term incentive grants referenced were granted
23 within one year prior to an acquisition.

24 389. Thus, when controlling for whether these long-term incentive compensation
25 awards were granted within a year prior to a company making an acquisition, Mr. Hall's analysis
26

27 ¹⁶ Although these companies are somewhat larger than Extreme by revenue, Mr. Hall included
28 them in his review because he believed they provide another relevant comparison in assessing
how common Berger's compensation plan was overall.

1 showed that the percentage of comparable CEO long-term incentive grants among these 412
2 companies fell from 2.91% to **.97%**.

3 390. Further, in his review of the 917 companies with revenues between \$1 billion and
4 million and \$5 billion, he determined that only 32 of these 917 CEO compensation packages –
5 *i.e.*, only **3.49%** – included a “performance metric” offering performance-based incentive grants
6 that would be earned or vest based on absolute stock price performance, like Berger’s.

7 391. He further reviewed the 32 long-term incentive grants that used absolute stock
8 price as a performance measure referenced above to determine how many were made at a time
9 when the company was involved in acquiring another company. Adding this parameter to his
10 search, he found that only 10 of the 32 long-term incentive grants referenced were granted within
11 one year prior to an acquisition.

12 392. Thus, when controlling for whether these long-term incentive compensation
13 awards were granted within a year prior to a company making an acquisition, Mr. Hall’s analysis
14 showed that the percentage of comparable CEO long-term incentive grants among these 917
15 companies fell from 3.49% to **1.09%**.

16 393. Mr. Hall concluded that these results were not surprising because in his expert
17 opinion, when a portion of an executive’s compensation is based on absolute stock price
18 performance, (i) the executive is highly incentivized to make misstatements or omissions about
19 the current or future performance of the Company to earn that bonus, and (ii) factors entirely
20 unrelated to the executive’s performance can cause him to earn that bonus.¹⁷ For these reasons,
21
22

23 ¹⁷ See, e.g., Dan Cable and Freek Vermeulen, *Stop Paying Executives for Performance*,
24 HARVARD BUSINESS REVIEW, February 23, 2016, available at [https://hbr.org/2016/02/stop-](https://hbr.org/2016/02/stop-paying-executives-for-performance)
25 [paying-executives-for-performance](https://hbr.org/2016/02/stop-paying-executives-for-performance). (“Contingent pay leads to cooking the books. When a large
26 proportion of a person’s pay is based on variable financial incentives, those people are more
27 likely to cheat. In academic terms, we would put it this way: extrinsic motivation causes people
28 to distort the truth regarding goal attainment. When people are largely motivated by the financial
rewards for hitting results, it becomes attractive to game the metrics and make it seem as though
a payout is due. For example, different studies have shown that paying CEOs based on stock
options significantly increases the likelihood of earnings manipulations, shareholder lawsuits,
and product safety problems. When people’s remuneration depends strongly on a financial
measure, they are going to maximize their performance on that measure; no matter how.”).

he opined, the use of absolute stock price as a performance metric in executive compensation plans is negatively viewed by most corporate governance professionals.

394. Mr. Hall stated that, for example, the use of absolute share price as a performance metric provides a CEO with strong incentives to make positive statements regarding the anticipated success of the company to cause the share price to rise, or alternatively, not disclose negative information about the company that could cause the share price to decline.

395. Under the above analyses, Mr. Hall concluded that Berger's compensation as CEO of Extreme, entered on April 25, 2013, was unique in Extreme's history and highly unusual among comparably-sized companies across the U.S. He further concluded that it was even more unusual across comparably-sized companies granting such an award to CEOs within one year of making an acquisition.

396. Mr. Hall further concluded that Berger's highly unusual performance options provided in his compensation package had the effect of providing Berger strong incentives to make false and misleading statements about the success of the acquisition to inflate the price of Extreme stock.

3. Berger Was Motivated to Make Misrepresentations to Trigger His "Performance Option" Tied to Extreme's Short-Term Stock Price, and Had the Opportunity to Do So

397. Through Berger's repeated false and misleading statements regarding the Company's integration of Enterasys and anticipated earnings, cost savings, and profits – as well as the false and misleading statements of Berger's direct reports Kurtzweil and Arola – Berger succeeded in meeting all three "Performance Option" incentive targets and thereby obtained 900,000 valuable Extreme stock options that he would not have otherwise had.

398. The stock price reached a high of \$8.14 per share during the Class Period after Berger succeeded in meeting all three incentive targets. Berger's options to purchase 900,000 shares of Extreme stock had an exercise price of \$3.17 per share. Accordingly, his potential profit from his unique incentive scheme was in excess of \$4.4 million, or almost **nine times** his annual base salary.

399. With this highly unusual incentive package as motivation, Berger made numerous false and misleading statements and omissions regarding the Enterasys integration.

400. Before Berger announced the Enterasys acquisition, Extreme's stock price was not able to stay above \$4.00/share to trigger even the first level of his "Performance Option" bonuses. By September 12, 2013, five months of Berger's tenure had passed without earning the bonus, and Berger announced the Enterasys acquisition. On that day, he represented to investors that the Company had a "*plan*" in place to achieve "*\$30 million to \$40 million*" in cost-saving synergies and guaranteed them that "[t]here will be no disruption in customers' ability to grow and operate their networks. Period. None." Not only did Extreme's stock price immediately rise, *see* ¶ 176, but Berger's "Performance Option" bonuses also began to trigger: first on October 18, and again on November 6, 2013. *See* ¶ 9. Although the rally on Extreme's share price slowed in early November, Berger represented on November 4 to investors that "*our integration efforts are on track*." Extreme's share price resumed its rise, *see* ¶ 190, and finally on December 16, 2013, after only two months, Berger earned the final level of his "Performance Option" bonuses. *See* ¶ 9.

401. As noted above, the terms of Berger's bonus indicated that he would keep all 900,000 options even if the stock price immediately fell below the target stock prices. After the truth emerged, in a sequence of four partial events before a final event on April 9, 2015 (*see* ¶ 424-428), Extreme's stock price returned to pre-fraud levels, yet Berger's contract allowed him to keep all 900,000 options acquired through this unusual "Performance Option." This remained the case even after Berger left the Company (as the options would not expire for seven years after the grant date), and today, the options earned over the course of merely two months (September 12 to December 16, 2013) are worth over \$6.3 million,¹⁸ or **over twelve times** Berger's annual salary at Extreme. Berger would not have received this substantial windfall if he refrained from inflating the stock price during the Class Period, because his Performance Option **would not have otherwise triggered**: at no point before his first misstatement or after the final

¹⁸ This measurement uses the closing price of \$10.23/share on June 2, 2017.

1 corrective disclosure was Extreme's price ever above \$4.00/share for 30 consecutive days,
2 through Berger's entire two-year tenure.

3 402. Thus, Berger's highly unusual incentives provided him the motive and
4 opportunity to receive unwarranted compensation while diluting investor holdings.

5 **B. Core Operations Allegations: The Enterasys Acquisition Was a Critical**
6 **Transaction for Extreme and Its Integration Was Followed Closely by Senior**
7 **Management**

8 403. Berger was at all times fully informed about the problems with the acquisition and
9 integration of Enterasys, which was a critical transaction for Extreme. Extreme acquired
10 Enterasys's outstanding stock in an all cash transaction valued at \$180 million, which was nearly
11 **half** of Extreme's market capitalization at the time. When the acquisition was first announced,
12 Berger stated it "**will certainly be transformational** for our Companies."

13 404. Because Extreme had "just shy of \$300 million in annual revenues" at the time
14 the transaction was announced, and Enterasys had "between \$325 million and \$330 million," the
15 acquisition would be responsible for adding **over half** of the Company's revenue going forward.
16 As such, Extreme's ability to successfully integrate Enterasys was tantamount to its ability to
17 maintain Enterasys's revenue stream. In fact, because of the competition and overlap that
18 resulted from the integration, described *supra*, Extreme's ability to successfully integrate
19 Enterasys also imperiled Extreme's own half of the revenue stream.

20 405. Further, Berger took on direct responsibility for the integration for a large portion
21 of the Class Period. At the beginning of the Class Period, the "responsibility for sales and
22 marketing" to "maintain the entire revenue streams of both companies" had been Chris
23 Crowell's, who had been the CEO of Enterasys. When Extreme suddenly announced Crowell's
24 departure as Chief Operations Officer on May 6, 2014, it was not immediately prepared with a
25 replacement. Instead, Berger disclosed in a conference call later the same day that,
26 notwithstanding prior assurances, there had been problems with the integration and that, as a
27 result, he would be taking direct responsibility for the integration efforts:

28 As we move on to the next phase of the integration I feel that **it is critical that I**
stay close to our field organizations [i.e., the salesforce] particularly in North
America **where we have experienced some integration issues**. The field

1 organizations and corporate marketing will **report directly to me effective**
 2 **today.**

3 Thus, Berger came to be directly in charge of the salesforce operations, including the continuing
 4 integration efforts. In fact, as CW3 described (*see* ¶¶ 103-105, 110, 112, 113 *supra*), Berger
 5 scheduled the quarterly salesforce meetings by email, led these quarterly salesforce calls and the
 6 annual global salesforce conference in Las Vegas in the summer of 2014, and at these quarterly
 7 calls and annual meeting responded to the sales personnel's questions regarding the continuing
 8 integration problems, including specifically the lack of an integration plan, a product roadmap,
 9 and plan to achieve synergies.

10 406. Indeed, a May 7, 2014 Wunderlich Securities analyst report observed that
 11 “[c]hallenges of combining like-size companies impacted Extreme (EXTR) 3Q14 results
 12 and outlook with the Americas team lagging behind integration in other regions. Because of
 13 this, the COO has recently left the company and CEO Chuck Berger will run sales for the
 14 time being.” The report further noted that “CEO Chuck Berger has eliminated the COO role
 15 and put himself in charge of sales management for the time being.”

16 407. Furthermore, on an August 14, 2014 conference call to discuss results for the
 17 fourth fiscal quarter of 2014, Berger stated that his knowledge of integration issues in North
 18 America came directly from “having spent a great deal of time with the North America
 19 Management team over the quarter.” On the same call, he disclosed that he attended the
 20 Company’s “global sales conference” along with “the entire sales team,” which he also
 21 purported to give him insight into “integration issues” (though he went on to say, falsely, that
 22 they were “*behind us*”), thus confirming CW3s allegations about the same (*see* ¶¶ 104, 110
 23 *supra*).

24 408. Berger continued being directly responsible for the integration until Extreme hired
 25 Jeff White as CRO to head the sales group on October 1, 2014.

26 409. Finally, after the departure of CRO White after only six months in the position, an
 27 April 10, 2015 Wunderlich Securities analyst report stated that Berger “will run the department
 28 **again** until a replacement” for White could be found, referring to the period when Berger

1 previously ran the Company's sales division. This confirmed the market's understanding that
 2 Berger was intimately aware of, was closely involved in, and **even managed** the day-to-day
 3 operations of the Company's main operations and revenue stream throughout the Class Period.

4 410. Moreover, Berger's close management of Extreme's operations, including
 5 specifically the salesforce and the Enterasys integration efforts, is further demonstrated by his
 6 direct contacts with Extreme's sales and engineering personnel (CW1s and CW3) about the
 7 salesforce integration problems during the Class Period, as discussed at ¶¶ 122-123, 126-127,
 8 *supra*. In particular, the fact that Berger personally contacted CW1 upon learning of CW1's
 9 resignation in April 2014 shows Berger's hands-on management style.

10 411. Kurtzweil's close management of the Enterasys integration is further evidenced
 11 by the fact that securities analysts who followed Extreme during the Class Period noted upon his
 12 departure in May 2014 that "CFO John Kurtzweil has been a major factor in driving most of the
 13 Enterasys integration." *See* ¶136, *supra*.

14 **VIII. CLASS ACTION ALLEGATIONS**

15 412. Lead Plaintiff brings this federal securities class action on behalf of itself and all
 16 persons and entities that, during the period from September 12, 2013 through April 9, 2015,
 17 inclusive (the "Class Period"), purchased the publicly traded common stock of Extreme and/or
 18 exchange-traded options on such common stock, and were damaged thereby (the "Class").
 19 Excluded from the Class are: (i) Defendants; (ii) members of the immediate family of any
 20 Defendant who is an individual; (iii) any person who was an officer or director of Extreme
 21 during the Class Period; (iv) any firm, trust, corporation, or other entity in which any Defendant
 22 has or had a controlling interest; (v) Extreme's employee retirement and benefit plan(s); and (vi)
 23 the legal representatives, affiliates, heirs, successors-in-interest, or assigns of any such excluded
 24 person.

25 413. The members of the Class are so numerous that joinder of all members is
 26 impracticable. During the Class Period, Extreme had approximately 94 to 100 million shares of
 27 common stock outstanding and actively trading on the NASDAQ with the ticker symbol
 28 "EXTR." While the exact number of Class members is unknown to Lead Plaintiff at this time,

1 and can only be ascertained through appropriate discovery, Lead Plaintiff believes that the
2 proposed Class numbers in the thousands and is geographically widely dispersed. Record
3 owners and other members of the Class may be identified from records maintained by Extreme
4 or its transfer agent and may be notified of the pendency of this action by mail, using a form of
5 notice similar to that customarily used in securities class actions.

6 414. Lead Plaintiff's claims are typical of the claims of the members of the Class. All
7 members of the Class were similarly affected by Defendants' allegedly wrongful conduct in
8 violation of the Exchange Act as complained of herein.

9 415. Lead Plaintiff will fairly and adequately protect the interests of the members of
10 the Class. Lead Plaintiff has retained counsel competent and experienced in class and securities
11 litigation.

12 416. Common questions of law and fact exist as to all members of the Class, and
13 predominate over any questions solely affecting individual members of the Class. The
14 questions of law and fact common to the Class include:

- 15 a. whether the federal securities laws were violated by Defendants' acts and
16 omissions as alleged herein;
- 17 b. whether the statements made to the investing public during the Class
18 Period contained material misrepresentations or omitted to state material information;
- 19 c. whether and to what extent the market price of Extreme's common stock
20 and exchange-traded options on such common stock was artificially inflated during the Class
21 Period because of the material misstatements alleged herein;
- 22 d. whether Defendants acted with the requisite level of scienter;
- 23 e. whether the Individual Defendants were controlling persons of Extreme;
- 24 f. whether reliance may be presumed pursuant to the fraud-on-the-market
25 doctrine and/or the presumption of reliance afforded by *Affiliated Ute Citizens of Utah v. United*
26 *States*, 406 U.S. 128 (1972); and
- 27 g. whether the members of the Class have sustained damages as a result of
28 the conduct complained of herein and, if so, the proper measure of damages.

1 417. A class action is superior to all other available methods for the fair and efficient
2 adjudication of this controversy because, among other things, joinder of all members of the
3 Class is impracticable. Furthermore, because the damages suffered by individual Class
4 members may be relatively small, the expense and burden of individual litigation make it
5 impossible for members of the Class to individually redress the wrongs done to them. There
6 will be no difficulty in the management of this action as a class action.

7 **IX. LOSS CAUSATION**

8 418. During the Class Period, as detailed herein, Defendants engaged in a scheme to
9 deceive the market and a course of conduct that artificially inflated the price of Extreme
10 common stock and operated as a fraud or deceit on Class Period purchasers of Extreme common
11 stock and exchange-traded options on such common stock by failing to disclose and
12 misrepresenting the adverse facts detailed herein. As Defendants' prior misrepresentations and
13 fraudulent conduct were disclosed and became apparent to the market, the price of Extreme
14 common stock declined significantly as the prior artificial inflation came out of the Company's
15 stock price.

16 419. As a result of their purchases of Extreme's common stock and exchange-traded
17 options on such common stock during the Class Period, Lead Plaintiff and the other Class
18 members suffered economic loss, *i.e.*, damages, under the federal securities laws. Defendants'
19 false and misleading statements had the intended effect and caused Extreme common stock to
20 trade at artificially inflated levels throughout the Class Period, reaching as high as \$8.14 per
21 share at the close of the market on January 23, 2014.

22 420. By concealing from investors the adverse facts detailed herein, Defendants
23 presented a misleading picture of Extreme's business and prospects. As the truth about the
24 Company was revealed to the market and concealed risks materialized, the price of Extreme's
25 common stock fell dramatically. These declines removed the artificial inflation from the price
26 of Extreme's common stock, causing economic loss to investors who had purchased Extreme
27 common stock and exchange-traded options on such common stock during the Class Period.

1 421. The declines in the price of Extreme common stock after the partial corrective
 2 disclosures and/or materializations of the risk on February 5, 2014, May 6, 2014, October 15,
 3 2014, and January 14, 2015, and the final corrective disclosure and/or materializations of the risk
 4 on April 9, 2015 came to light were a direct result of the nature and extent of Defendants’
 5 fraudulent misrepresentations and omissions being revealed to investors and the market. The
 6 timing and magnitude of the price declines in Extreme’s common stock negate any inference that
 7 the loss suffered by Lead Plaintiff and the other Class members was caused by changed market
 8 conditions, macroeconomic or industry factors or Company-specific facts unrelated to
 9 Defendants’ fraudulent conduct.

10 422. During the Class Period, the price of Extreme stock declined as the true state of
 11 Extreme’s operations was revealed to the investing public.

12 423. The economic loss, *i.e.*, damages, suffered by Lead Plaintiff and the other Class
 13 members was a direct result of Defendants’ fraudulent scheme to artificially inflate the price of
 14 Extreme common stock and the subsequent material declines in the value of Extreme common
 15 stock when Defendants’ prior misrepresentations and other fraudulent conduct were revealed.

16 424. On February 5, 2014, Defendants partially revealed the truth that there were
 17 “some self imposed issues” relating to the integration, and reported disappointing revenues and
 18 guidance for the next quarter. *See supra* ¶ 188. As a result, on February 5, 2014 Extreme’s
 19 stock fell almost **16%** on unusually heavy trading with more than 8.6 million shares trading
 20 hands (versus 1.4 million shares traded the day before), dropping \$1.12 per share to close at
 21 \$5.92. However, Defendants failed to disclose the full extent of the integration failures or the
 22 truth about its partnership with Lenovo up to that point. In fact, Defendants continued to falsely
 23 reassure the market that their “*integration plans are on track.*”

24 425. On May 6, 2014, Defendants further partially revealed that it “experienced **some**
 25 integration issues.” The Company also announced the abrupt and unexplained departure of its
 26 CFO and COO and reported disappointing revenues. *See supra* ¶¶ 204-207. As a result, on May
 27 7, 2014 Extreme’s stock fell almost **26%** on unusually heavy trading with more than 9.3 million
 28 shares trading hands (versus 3.7 million shares traded the day before), dropping \$1.38 per share

1 to close at \$3.95. However, Defendants failed to disclose the full extent of the integration
 2 failures, the truth about its partnership with Lenovo, or its lack of a basis for its 10% revenue
 3 growth and operating margin “commitment” up to that point. In fact, Defendants continued to
 4 falsely reassure the market that “[t]he integration efforts following the acquisition of Enterasys
 5 *continue ahead of plan.*”

6 426. On October 15, 2014, Defendants preannounced revenues significantly below its
 7 previous guidance. *See supra* ¶ 265. As a result, on October 16, 2014 Extreme’s stock fell **more**
 8 **than 18%** on unusually heavy trading with more than 8.4 million shares trading hands, dropping
 9 \$0.70 per share to close at \$3.06. However, Defendants failed to disclose the full extent of the
 10 integration failures, the truth about its partnership with Lenovo, or its lack of a basis for its 10%
 11 revenue growth and operating margin “commitment” up to that point. In fact, Defendants
 12 continued to falsely reassure the market that the Company “made dramatic progress towards
 13 finalizing the integration of the acquisition of Enterasys” and remained “*on track to realize the*
 14 *full \$30-\$40 million in cost synergies expected from the acquisition.*”

15 427. On January 14, 2015, Defendants backed away from its commitment to achieve
 16 10% revenue growth and 10% operating margin by June 2015. As a result, by January 16, 2015
 17 Extreme’s stock had fallen **more than 9%** on unusually heavy trading with more than 2.2
 18 million shares trading hands that day (versus 351,000 shares traded on January 14, 2015),
 19 dropping a total of \$0.31 per share to close at \$3.05. However, Defendants failed to disclose the
 20 full extent of the integration failures, the truth about Extreme’s partnership with Lenovo, or their
 21 lack of any basis for their 10% revenue growth and operating margin “commitment” up to that
 22 point.

23 428. On April 9, 2015, the Company preannounced that it would miss guidance for
 24 3Q15, reporting revenue of \$118-\$120 million and earnings per share (“EPS”) of (\$0.09)-
 25 (\$0.07), significantly below its guidance of \$130-\$140 million and (\$0.03)-\$0.02, respectively.
 26 The Company also announced more executive turnover – Chief Revenue Officer Jeff White, who
 27 had been hired only six months earlier to manage the integration of the Extreme and Enterasys
 28 salesforces, was “no longer with the Company” – and trading in its shares was halted. On these

1 disclosures, the Company's stock price fell **nearly 23%**, from \$3.24 per share to \$2.50 per share,
2 on highly unusual trading volume of 10.1 million shares traded (versus 356,300 shares traded the
3 day before).

4 **X. APPLICABILITY OF PRESUMPTION OF RELIANCE:**
5 **FRAUD ON THE MARKET DOCTRINE**

6 429. Lead Plaintiff is entitled to a presumption of reliance under *Affiliated Ute*
7 *Citizens of Utah v. United States*, 406 U.S. 128 (1972), because the claims asserted herein
8 against Defendants are predicated upon omissions of material fact which there was a duty to
9 disclose.

10 430. In the alternative, Lead Plaintiff is entitled to a presumption of reliance on
11 Defendants' material misrepresentations and omissions pursuant to the fraud-on-the-market
12 theory:

13 a. Extreme's common stock was actively traded on the NASDAQ, an
14 informationally efficient market, throughout the Class Period.

15 b. Extreme's common stock traded at high weekly volumes during the Class
16 Period.

17 c. As a regulated issuer, Extreme filed periodic public reports with the SEC.

18 d. Extreme regularly communicated with public investors by means of
19 established market communication mechanisms, including through regular dissemination of
20 press releases on the major news wire services and through other wide-ranging public
21 disclosures, such as communications with the financial press, securities analysts and other
22 similar reporting services.

23 e. The market reacted promptly to public information disseminated by
24 Extreme.

25 f. Extreme's securities were covered by numerous securities analysts
26 employed by major brokerage firms who wrote reports that were distributed to the sales force
27 and certain customers of their respective firms. Each of these reports was publicly available and
28 entered the public marketplace. The firms who wrote analyst reports on Extreme during the

Class Period included, but are not necessarily limited to, the following: Craig-Hallum Capital, D.A. Davidson & Co., Wedbush Securities, Wunderlich Securities, Inc., Buckingham Research Group, Raymond James, and Needham & Company.

g. The material misrepresentations and omissions alleged herein would tend to induce a reasonable investor to misjudge the value of Extreme's common stock.

h. Without knowledge of the misrepresented or omitted material facts alleged herein, Lead Plaintiff and other members of the Class purchased shares of Extreme's common stock and exchange-traded options on such common stock between the time Defendants misrepresented or failed to disclose material facts and the time the true facts were disclosed.

XI. NO SAFE HARBOR

431. The statutory safe harbor provided by the PSLRA for forward-looking statements under certain circumstances does not apply to any of the materially false and misleading statements and omissions alleged in this Complaint. *First*, many of the statements and omissions alleged to be false and misleading relate to historical facts or existing conditions. *Second*, any purported forward-looking statements and omissions were not accompanied by meaningful cautionary language because risks that Defendants warned of had already come to pass, and any cautionary language did not mention important factors of similar significance to those actually realized. *Third*, to the extent that there were any forward-looking statements that were identified as such, Defendants are liable because, at the time each of those forward-looking statements was made, the speaker knew the statement was false when made.

A. The Majority of Defendants' False and Misleading Statements and Omissions Were Not Forward-Looking

432. The majority of the false and misleading statements and omissions alleged herein, *e.g.*, ¶¶180, 197, 209, 213, 227, 235, 240, 245, 250, 254, 258, 267, 274, 279, 284, 291, 296, 307, 317, and 330, (1) relate to historical or current facts, (2) implicate existing conditions, and (3) do not contain projections of future performance or future objectives. For example, they relate to

1 the current status of Extreme's integration of Enterasys or current status of Extreme's partnership
2 with Lenovo.

3 433. To the extent any of these statements might be construed to touch on future intent,
4 they are mixed statements of present facts and future intent and are not entitled to safe harbor
5 protection with respect to the part of the statement that refers to the present.

6 **B. Any Forward-Looking Statements Were Not Accompanied by Meaningful**
7 **Cautionary Language**

8 434. None of Defendants' statements were accompanied by meaningful cautionary
9 language that identified important factors that could cause actual results to differ materially from
10 any results projected.

11 435. Additionally, to the extent Defendants included any cautionary language, that
12 language was not meaningful because any potential risks identified by Defendants had already
13 manifested. For example, as detailed herein, at the time Defendants made their false and
14 misleading statements and omissions, Defendants knew that the Enterasys integration was not
15 "on track," "ahead of plan," or "complete" because it lacked an integration plan and was
16 experiencing substantial integration problems, and that Extreme did not have visibility into how
17 and when the Lenovo partnership. Thus, vague warnings regarding, for example, how: (1)
18 failure to integrate successfully and (2) failure to cultivate relationships with channel partners
19 "may" adversely affect Extreme's business, were insufficient because they failed to warn that the
20 risks had already occurred when Defendants made their false and misleading statements.

21 436. To the extent Defendants included any cautionary language, that language was
22 not precise and did not relate directly to the forward-looking statements at issue. The purported
23 cautionary language did not mention important factors that could cause actual results to differ
24 materially from those in the forward-looking statements.

25 **C. Defendants Knew That Any Forward-Looking Statements Were False or**
26 **Misleading When Made**

27 437. Even if the alleged statements were sufficiently identified as "forward-looking" at
28 the time they were made, each speaker knew that the statement was false or misleading, as
discussed above. In addition, all such statements were authorized or approved by Extreme

1 executive officers who actually knew that the statements were false or misleading when made.
2 Accordingly, Defendants remain liable even for forward-looking statements.

3 **COUNT I**

4 **Violation of § 10(b) of the Exchange Act and Rule 10b-5**
5 **Promulgated Thereunder Against All Defendants**

6 438. Lead Plaintiff repeats and realleges each and every allegation set forth above as
7 if fully set forth herein.

8 439. This Count is asserted pursuant to Section 10(b) of the Exchange Act and Rule
9 10b-5 promulgated thereunder by the SEC against all Defendants.

10 440. As alleged herein, throughout the Class Period, Defendants, individually and in
11 concert, directly and indirectly, by the use of the means or instrumentalities of interstate
12 commerce, the mails and/or the facilities of national securities exchanges, made untrue
13 statements of material fact and/or omitted to state material facts necessary to make their
14 statements not misleading and carried out a plan, scheme and course of conduct, in violation of
15 Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder. Defendants
16 intended to and did, as alleged herein, (i) deceive the investing public, including Lead Plaintiff
17 and members of the Class; (ii) artificially inflate and maintain the prices of Extreme common
18 stock; and (iii) cause Lead Plaintiff and members of the Class to purchase Extreme common
19 stock and options on such common stock at artificially inflated prices.

20 441. The Individual Defendants were individually and collectively responsible for
21 making the false and misleading statements and omissions alleged herein and having engaged in
22 a plan, scheme and course of conduct designed to deceive Lead Plaintiff and members of the
23 Class, by virtue of having made public statements and prepared, approved, signed and/or
24 disseminated documents that contained untrue statements of material fact and/or omitted facts
25 necessary to make the statements therein not misleading.

26 442. As set forth above, Defendants made their false and misleading statements and
27 omissions and engaged in the fraudulent activity described herein knowingly and intentionally,
28 or in such a deliberately reckless manner as to constitute willful deceit and fraud upon Lead

1 Plaintiff and the other members of the Class who purchased Extreme common stock and options
2 during the Class Period.

3 443. In ignorance of the false and misleading nature of Defendants' statements and
4 omissions, and relying directly or indirectly on those statements or upon the integrity of the
5 market price for Extreme common stock and options, Lead Plaintiff and other members of the
6 Class purchased Extreme common stock and options at artificially inflated prices during the
7 Class Period. But for the fraud, Lead Plaintiff and members of the Class would not have
8 purchased Extreme common stock and options at such artificially inflated prices. As set forth
9 herein, when the true facts were subsequently disclosed, the price of Extreme common stock
10 and options declined precipitously and Lead Plaintiff and members of the Class were harmed
11 and damaged as a direct and proximate result of their purchases of Extreme common stock and
12 options at artificially inflated prices and the subsequent decline in the price of that stock and
13 options when the truth was disclosed.

14 444. By virtue of the foregoing, Defendants are liable to Lead Plaintiff and members
15 of the Class for violations of Section 10(b) of the Exchange Act and Rule 10b-5 promulgated
16 thereunder.

17 **COUNT II**

18 **Violation of § 20(a) of the Exchange Act** 19 **Against Defendants Berger, Arola and Kurtzweil**

20 445. Lead Plaintiff repeats and realleges each of the allegations set forth above as if
21 fully set forth herein.

22 446. This Count is asserted pursuant to Section 20(a) of the Exchange Act against
23 Defendants Berger, Arola and Kurtzweil.

24 447. As alleged above, Defendants violated Section 10(b) of the Exchange Act and
25 Rule 10b-5 promulgated thereunder by making false and misleading statements in connection
26 with the purchase and sale of Extreme's common stock and options on such common stock and
27 by participating in a fraudulent scheme and course of business or conduct throughout the Class
28 Period. This fraudulent conduct was undertaken with scienter and the Company is charged with

1 the knowledge and scienter of each of the Individual Defendants who knew of or acted with
2 deliberate reckless disregard of the falsity of their statements and the fraudulent nature of its
3 scheme during the Class Period. Thus, Extreme is primarily liable under Section 10(b) of the
4 Exchange Act.

5 448. As set forth above, Defendants Berger, Kurtzweil, and Arola were controlling
6 persons of Extreme during the Class Period, due to their senior executive positions with the
7 Company and their direct involvement in the Company's day-to-day operations, including
8 Extreme's Enterasys integration efforts, partnership with Lenovo, and sales force.

9 449. By virtue of the foregoing, Defendants Berger, Arola and Kurtzweil each had the
10 power to influence and control, and did influence and control, directly or indirectly, the
11 decision-making of Extreme, including the content of its public statements with respect to the
12 Company's integration efforts, the success (or lack thereof) of its partnerships, and financial
13 commitments to investors including growth.

14 450. Defendants Berger, Arola and Kurtzweil knowingly and intentionally, or in such
15 a deliberately reckless manner as to constitute willful fraud and deceit upon Lead Plaintiff and
16 the other members of the Class who purchased Extreme common stock and options during the
17 Class Period.

18 451. In ignorance of the false and misleading nature of the Company's statements and
19 omissions, and relying directly or indirectly on those statements or upon the integrity of the
20 market prices for Extreme common stock and options, Lead Plaintiff and other members of the
21 Class purchased Extreme common stock and options at an artificially inflated price during the
22 Class Period. But for the fraud, Lead Plaintiff and members of the Class would not have
23 purchased Extreme common stock and options at artificially inflated prices. As set forth herein,
24 when the true facts were subsequently disclosed, the price of Extreme common stock and options
25 declined precipitously and Lead Plaintiff and members of the Class were harmed and damaged as
26 a direct and proximate result of their purchases of Extreme common stock and options at
27 artificially inflated prices and the subsequent decline in the price of that stock and options when
28 the truth began to be disclosed.

452. By reason of the foregoing, Defendants Berger, Arola and Kurtzweil are liable to Lead Plaintiff and the members of the Class as controlling persons of Extreme in violation of Section 20(a) of the Exchange Act.

XII. PRAYER FOR RELIEF

WHEREFORE, Lead Plaintiff respectfully prays for judgment as follows:

A. Determining that this action is a proper class action maintained under Rules 23(a) and (b)(3) of the Federal Rules of Civil Procedure, certifying Lead Plaintiff as class representative, and appointing Labaton Sucharow LLP as class counsel pursuant to Rule 23(g);

B. Declaring and determining that Defendants violated the Exchange Act by reason of the acts and omissions alleged herein;

C. Awarding Lead Plaintiff and the Class compensatory damages against all Defendants, jointly and severally, in an amount to be proven at trial together with prejudgment interest thereon;

D. Awarding Lead Plaintiff and the Class their reasonable costs and expenses incurred in this action, including but not limited to attorney's fees and costs incurred by consulting and testifying expert witnesses; and

E. Granting such other and further relief as the Court deems just and proper.

XIII. JURY DEMAND

Lead Plaintiff demands a trial by jury of all issues so triable.

Dated: June 2, 2017

LABATON SUCHAROW LLP

By: /s/ Thomas A. Dubbs
Thomas A. Dubbs

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Lead Counsel for the Class

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Liaison Counsel

CERTIFICATE OF SERVICE

I, the undersigned, state that I am employed in the City and County of New York, State of New York, that I am over the age of eighteen (18) years and not a party to the within action, that I am employed at Labaton Sucharow LLP, 140 Broadway, New York, New York 10005, and that on June 2, 2017, I served a copy of the attached:

AMENDED CONSOLIDATED CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS

to the parties listed on the attached Service List by the following means of service:

☒ BY E-FILE: I electronically filed the foregoing with the Clerk of the Court using the CM/ECF system which will send notification of such filing to all parties of record registered with the Court's electronic filing system.

I declare under penalty of perjury under the laws of the New York that the foregoing is true and correct. Executed on the 2nd day of June, 2017.

/s/ Thomas A. Dubbs
THOMAS A. DUBBS